



OECD ANNUAL REPORT **2005**
45th Anniversary





Annual Report : 2005

ON THE COVER

(Top to bottom, left to right): Bertie Ahern, Ireland, Prime Minister, 1997-present; Esko Aho, Finland, Prime Minister, 1991-1995; Madeleine Albright, US Secretary of State, 1997-2001; Kofi Annan, Ghana, UN, Secretary-General, 1997-present; John Douglas Anthony, Australia, Deputy Prime Minister, 1971-1972, 1975-1983; Gerassimos Arsenis, Greece, Economy Minister, 1982-1985; Leszek Balcerowicz, Poland, Deputy Prime Minister and Minister of Finance, 1989-1991; José Manuel Durão Barroso, Portugal, Prime Minister 2002-2004, European Commission President, 2004-present; King Baudouin, Belgium, 1951-1993; Carl Bildt, Sweden, Prime Minister, 1991-1994; Willy Brandt, Germany, Federal Chancellor, 1969-1974; Ron Brown, US, Commerce Secretary, 1993-1996; Gro Harlem Brundtland, Norway, Prime Minister, 1986-1996, WHO Director-General, 1998-2003; Edelgard Bulmahn, Germany, Minister for Education and Research, 1998-present; Laura Bush, US, First Lady, 2001-present; Jacques Chirac, France, President, 1995-present; Joaquim Chissano, Mozambique, President, 1986-2005; Jean Chrétien, Canada, Prime Minister, 1993-2003; Warren Christopher, US, Secretary of State, 1993-1997; Carlo Ciampi, Italy, President, 1999-present; Tansu Çiller, Turkey, Prime Minister, 1993-1995; Helen Clark, New Zealand, Prime Minister, 1999-present; José Gonçalo Correia de Oliveira, Portugal, Economy Minister, 1965-1969; Peter Costello, Australia, Treasurer, 1996-2004; Joseph Deiss, Switzerland, President, 2004; Jean-Pascal Delamuraz, Switzerland, President, 1996; Jacques Delors, France, European Commission President, 1985-1995; Mikuláš Dzurinda, Slovak Republic, Prime Minister, 1998-present; Recep Tayyip Erdogan, Turkey, Prime Minister, 2003-present; Ludwig Erhard, Germany, Federal Chancellor, 1963-1966; Vigdís Finnbogadóttir, Iceland, President, 1980-1996; Garrett Fitzgerald, Ireland, Prime Minister, 1981-1987; Colette Flesch, Luxembourg, Vice-President and Foreign Minister, 1980-1984; Vicente Fox, Mexico, President, 2000-present; Antonio Giolitti, Italy, Minister of Budget and Economic Planning, 1964, 1970-1972, 1973-1974, European Commissioner, 1977-1981; Valéry Giscard d'Estaing, France, President, 1974-1981; Bjorn Tore Godal, Norway, Foreign Minister, 1994-1997; Arpad Goncz, Hungary, President, 1993-2000; Felipe Gonzalez, Spain, Prime Minister, 1982-1996; Alan Greenspan, US, Chair, Federal Reserve Board, 1987-present; Toru Haguiwara, Japan, Ambassador to France, 1961-1967; Tarja Kaarina Halonen, Finland, President, 2000-present; Han Wan-Sang, Korea, Deputy Prime Minister, 1993 and 2001; Vaclav Havel, Czech Republic, President, 1993-2003; Denis Healey, UK, Chancellor of the Exchequer, 1974-1979; Edward Heath, UK, Prime Minister, 1970-1974; Roy Jenkins, UK, Chancellor of the Exchequer, 1967-1970, European Commission President, 1977-1981; Sigbjorn Johnsen, Norway, Finance Minister, 1990-1996; Queen Juliana, Netherlands, 1948-1980; Kang Kyung Shik, Korea, Finance Minister, 1997; Paul Keating, Australia, Prime Minister, 1991-1996; Henry Kissinger, US, Secretary of State, 1973-1977; Helmut Kohl, Germany, Chancellor, 1990-1998; Harold Macmillan, UK, Prime Minister, 1957-1963; Dwight D. Eisenhower, US, President 1953-1961; Charles de Gaulle, France, President, 1959-1969; Konrad Adenauer, Germany, Federal Chancellor, 1949-1963; Junichiro Koizumi, Japan, Prime Minister, 2001-present; Vaclav Klaus, Czech Republic, President, 2003-present; Wim Kok, Netherlands, Prime Minister, 1994-2002; Bruno Kreisky, Austria, Chancellor, 1970-1983; Aleksander Kwasniewski, Poland, President, 1995-present; John F. Kennedy, US, President, 1961-1963; Thorkil Kristensen, Denmark, OECD Secretary-General, 1961-1969; Emile Van Lennep, Netherlands, OECD Secretary-General, 1969-1984; Jean-Claude Paye, France, OECD Secretary-General, 1984-1996; Donald J. Johnston, Canada, OECD Secretary-General, 1996-present; Kim Dae-Jung, Korea, President, 1998-2003; Halvard Lange, Norway, Foreign Minister, 1946-1963; Li Lanqing, China, Vice-Prime Minister, 1993-present; Joseph Luns, Netherlands, Foreign Minister, 1952-1971, NATO Secretary-General, 1971-1984; Paul Martin, Canada, Prime Minister, 2003-present; Peter Medgyessy, Hungary, Prime Minister, 2002-2004; François Mitterrand, France, President, 1981-1995; Kiichi Miyazawa, Japan, Prime Minister, 1991-1993; Robert Muldoon, New Zealand, Prime Minister, 1975-1984; Ivar Nørgaard, Denmark, Minister for Foreign Economic Affairs, 1971-1973, 1975-1977; Kjeld Olesen, Denmark, Foreign Minister, 1979-1982; Olaf Palme, Sweden, Prime Minister, 1969-1976, 1982-1986; George Papandreu, Greece, Foreign Minister, 1999-2004; Georges Pompidou, France, President, 1969-74; Romano Prodi, Italy, Prime Minister, 1996-1998, European Commission President, 1999-2004; Vladimir Putin, Russia, President, 2000-present; Poul Nyrup Rasmussen, Denmark, Prime Minister, 1993-2001; Rodrigo Rato, Spain, Economy Minister, 1996-2004, IMF Managing Director, 2004-present; Mary Robinson, Ireland, President, 1990-1997, UN High Commissioner for Human Rights, 1997-2002; Renato Ruggiero, Italy, Foreign Minister, 2001-2002, WTO Director-General, 1995-1999; Jacques Santer, Luxembourg, Prime Minister, 1984-1995, European Commission President, 1995-1999; Hans Schaffner, Switzerland, President, 1966; Helmut Schmidt, Germany, Federal Chancellor, 1974-1982; Rudolf Schuster, Slovak Republic, President, 1999-2004; Clare Short, UK, Secretary of State for International Development, 1997-2003; Jon Sigurdsson, Iceland, Trade Minister, 1988-1993; Mario Soares, Portugal, President, 1986-1996; Javier Solana, Spain, Foreign Minister, 1992-1995; Panitchpakdi Supachai, Thailand, Deputy Prime Minister, 1992-1995, WTO Director-General, 2002-present; Peter Sutherland, Ireland, GATT and WTO Director-General, 1993-1995; Margaret Thatcher, UK, Prime Minister, 1979-1990; Pierre Trudeau, Canada, Prime Minister, 1968-1979, 1980-1984; Guy Verhofstadt, Belgium, Prime Minister, 1999-present; Franz Vranitzky, Austria, Chancellor, 1986-1997; Abdoulaye Wade, Senegal, President, 2000-present; Lech Walesa, Poland, President, 1990-1995; James D. Wolfensohn, US, World Bank President, 1995-2005; Ernesto Zedillo, Mexico, President, 1994-2000; Celso Amorim, Brazil, Foreign Minister, 2003-present; Michel Camdessus, France, IMF Managing Director, 1987-2000; Hugo Chavez, Venezuela, President, 1999-present; Edward Shevardnadze, Georgia, President, 1995-2003; General Sheikh Mohammed Bin Rashid Al Maktoum, Dubai, Crown Prince, 1995-present; Alexander Erwin, South Africa, Trade and Industry Minister, 1996-2004; Dawda Kairaba Jawara, Gambia, President, 1970-1994; Carlos Menem, Argentina, President, 1989-1999; Michael Moore, New Zealand, Prime Minister, 1990, WTO Director-General, 1999-2002; Adrian Nastase, Romania, Prime Minister, 2000-2004; Jaswant Singh, India, Foreign Minister, 1998-2002; U Thant, Myanmar, UN Secretary-General, 1961-1971.

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Preface

Some 45 years ago, a group of far-thinking world leaders decided that the economic co-operation between the members of the Marshall Plan should be continued and strengthened by the evolution of the OEEC into the OECD and its expansion to include more than Marshall Plan recipients.

They believed that trading goods and services was the path to peace, stability and prosperity, not just for their own members but for the world economy as a whole.

Their breadth of vision was astonishing. This becomes clear when you realise that the ideals that inspired them, and which have always been at the heart of the OECD's mission, are just as valid in today's globalised world as they were in 1960.

Those OECD founders created an Organisation whose mission was to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy. This included contributing to sound economic expansion in member as well as non-member countries in the process of economic development and contributing to the expansion of world trade on a multilateral, non-discriminatory basis.

Globalisation has made that mission statement perhaps even more pertinent today than it was 45 years ago and the OECD is continuing to fulfil its demanding mandate, not just for its 30 member countries but for the world economy as a whole.

The OECD now has a global reach engaging some 100 non-member economies in different aspects of its work. For example, the OECD is working in partnership with Middle East and North African countries in a new initiative on investment and governance for development. We have recently completed new studies on Brazil, China and Russia and OECD members are working together to co-ordinate development efforts in pursuit of the Millennium Development Goals to reduce poverty in the world's least developed countries.

This Organisation has achieved much in the past 45 years with the help of the world's political leaders – many of whose faces are on the cover of this book – but there are always new challenges, whether ageing populations or the sometimes painful adjustments to globalisation. This *Annual Report* looks at how the OECD is helping governments meet these challenges and deal with new issues as they arise. ■



OECD Secretary-General
Donald J. Johnston.

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

About the OECD

OECD share of world GNI (PPP): 59%
OECD share of world trade: 75%
OECD share of world population: 18%
OECD GDP growth in 2004: 3.6%
OECD share of world official development assistance: 95%
OECD contribution to world CO₂ emissions: 51%
OECD share of world energy production: 37%
OECD share of world energy consumption: 52%



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

www.oecd.org/about

The OECD can trace its roots back to the Marshall Plan for rebuilding the European economy after World War II. Its original mission is still valid today:

- to achieve sustainable economic growth and employment and rising standards of living in member countries while maintaining financial stability, so contributing to the development of the world economy;
- to assist sound economic expansion in member countries and other countries in the process of economic development; and
- to contribute to growth in world trade on a multilateral, non-discriminatory basis.

OECD countries produce almost 60% of the world's goods and services, but in an interdependent global economy the OECD does not and cannot work alone. It shares expertise and exchanges views with more than 100 countries worldwide on topics of mutual concern from improving health and education systems' performance to encouraging innovation and ensuring accountability of governments to their citizens.

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

The OECD is also at the forefront of efforts to understand, and to help governments to respond to, new developments and concerns. These include trade and structural adjustment, online security, and the challenges related to reducing poverty in the developing world.

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

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

Over the past decade, the OECD has tackled a range of cross-cutting economic, social and environmental issues while further deepening its engagement with business, trade unions and other representatives of civil society.

The Organisation works with developing countries, and non-members are invited to subscribe to agreements and treaties. Business, labour and civil society take part in work on issues from trade and environment to biotechnology and food safety. ■

Site project

The project to renovate the OECD's Paris headquarters got under way in earnest in 2004, with the granting of official planning permission and the start of the first stage of construction work.

This phase, which will last until 2006, includes renovating the Château at the La Muette site, demolishing the temporary buildings in the park behind the Château, building a new, underground conference centre and entrance gallery and installing a new computing centre for the entire headquarters.

In preparation for the renovation and construction work, about 1 000 staff were moved to temporary offices in the Tour Europe building in the French capital's La Défense area in 2003. During 2004, the 400 staff and services remaining at La Muette were regrouped within the lower floors of the New Building-Pascal wing complex, the site's main office building.

The main reception area was moved to the New Building in 2004, and OECD conferences will continue to be held in the New Building, which has been fitted out with three additional small conference rooms to help compensate for space not available in the Château during the building work.

The next phase of construction work – renovation of the New Building – will begin in 2006, as soon as staff there can be transferred to the completed Château site. OECD staff are due to return from La Défense to a refurbished New Building in 2009. The project is going ahead on time and on budget. ■



A summer party in the Château gardens and a wintry view of the construction work in progress.



Budget and finances

www.oecd.org/about/finstatements

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

Since 2003, the size of the OECD budget as well as its programme of work has been determined on a two-yearly basis by member countries, represented in the OECD's governing Council. At the same time, the Organisation introduced results-based planning, budgeting and management. The budget for 2004 totalled 321 million euros, and the budget for 2005 is 329 million euros.

The OECD's financial statements are prepared in accordance with International Public Sector Accounting Standards (IPSAS) – indeed, the OECD was the first international organisation to adopt them – and audited by external auditors. A Board of Auditors is responsible for independent external control of the OECD's accounts and financial management. The Board is made up of four members of national audit offices in member countries, named by the Council. It certifies the accounts and the Council then approves the Secretary-General's management.

The complete statements of financial position, financial performance and cash flow are available on the OECD Web site. ■

Member	% contribution	Member	% contribution
Australia	1.750	Luxembourg	0.100
Austria	0.924	Mexico	2.195
Belgium	1.155	Netherlands	1.886
Canada	3.334	New Zealand	0.237
Czech Republic	0.261	Norway	0.853
Denmark	0.746	Poland	0.716
Finland	0.591	Portugal	0.504
France	6.408	Slovak Republic	0.100
Germany	9.302	Spain	2.859
Greece	0.553	Sweden	1.074
Hungary	0.199	Switzerland	1.465
Iceland	0.100	Turkey	0.687
Ireland	0.420	United Kingdom	7.127
Italy	5.194	United States	24.975
Japan	22.235		
Korea	2.050	Total	100.000

Selected events



(Left to right)

Korean Trade Minister Doo-yun Hwang with Mexican Foreign Minister Luis Ernesto Derbez Bautista, at the OECD Ministerial meeting on 13-14 May 2004.

OECD Council at Ministerial Level



(Left to right)

Hungarian Prime Minister Péter Medgyessy with OECD Secretary-General Donald J. Johnston during a visit to the OECD on 8 April 2004.

Visit by Hungarian Prime Minister

(Left to right)
Former President of Korea
and Nobel Peace Prize Winner
Kim Dae-Jung
with Executive Director of the
Ethical Globalization Initiative and
Former President of Ireland
Mary Robinson
at the OECD Forum.



OECD Forum 2004



(Left to right)
Finland's President
Tarja Kaarina Halonen
with OECD Secretary-General
Donald J. Johnston during
a visit to the OECD
on 28 October 2004.

Visit by Finnish President



(Left to right)
Turkish Prime Minister Recep Tayyip Erdogan at a press conference with
OECD Secretary-General Donald J. Johnston during a visit to the OECD on 21 October 2004.

Visit by Turkish Prime Minister

— Happy anniversary

Anniversaries were the order of the day for the OECD in 2004; not only was it the 45th anniversary of the signing of the OECD's founding Convention in December, but during the year Japan celebrated 40 years of OECD membership, and Mexico ten.

To mark the occasion in July, the Tokyo Centre organised a symposium attended by OECD Secretary-General Donald J. Johnston and by Japanese Vice Foreign Minister Masatoshi Abe.



(Left to right)
Japanese Ambassador to France
Toru Hagiwara
and OECD Secretary-General
Thorkil Kristensen sign the agreement
on Japan's accession to the OECD, at the
Château de la Muette, Paris.



(Left to right)
Mexican Health Minister
Julio Frenk Mora;
OECD Secretary-General
Donald J. Johnston;
Mexican Economy Minister
Fernando Canales Clariond;
and Head of the Mexican President's
Public Affairs Office,
Eduardo Sojo Garza Aldape.

The OECD's latest review of the regulatory reform of Japan was presented to the audience, and panellists from business as well as academic circles discussed main challenges for Japan in coming years, including the regulatory reform to accomplish its sustainable growth in the coming decades.

Mexico marked the 10th anniversary of its membership by chairing the OECD's annual ministerial meeting in Paris, and the meeting of health ministers and OECD Forum 2004 that accompanied it. Later in the year, the Mexico Centre hosted the first Mexico Forum, with OECD Secretary-General Donald J. Johnston in the chair and an inaugural speech from Mexican President Vicente Fox. ■

KEY ACTIVITIES



— Economic growth and stability

Economic growth

www.oecd.org/economics

Economic performance is high on the political agenda of OECD governments. While output growth is not an end in itself, it is necessary to improve living conditions and enable governments to achieve other important goals, such as social equity and a clean environment. The OECD helps to make growth policies work, through monitoring economic development in member countries, as well as selected economies outside the OECD area, and by making policy recommendations.

The OECD brings together the expert knowledge of governments in areas such as taxes, finance, education, science, technology, regulation and employment. It looks at how macroeconomic policies can help keep national economies on the right track, and at the short and long-term effects of events such as the steep rise in oil prices in 2004. Work during the year also focused on broadening and strengthening the Organisation's general economic surveillance (*see box page 20*).

DID YOU KNOW...

that Ireland has recorded the OECD's fastest growth of GDP per capita in the past 10 years, at 6.8% annually?

Recovering from the oil-induced slowdown

www.oecd.org/growth

Since the start of the decade, the global economy has been moving in fits and starts. The year 2004 was no exception, starting with strong growth in most countries and ending with an oil price-induced deceleration. Nonetheless, there are good reasons to expect more sustained momentum over the near term. Barring unexpected events, OECD growth of about 3% annually is a



(Left to right)

Mexican Secretary of Economy, and Chair of the 2004 OECD Council meeting at ministerial level, Fernando Canales, and Canadian Minister of Health, Pierre Pettigrew.

plausible scenario for 2005-2006, creating a favourable environment for policy changes. Putting public finances in order, notably through expenditure restraint, is of vital importance in many large countries where budget deficits remain sizeable. Structural policy reforms are also needed, particularly in countries where growth has been persistently below average.

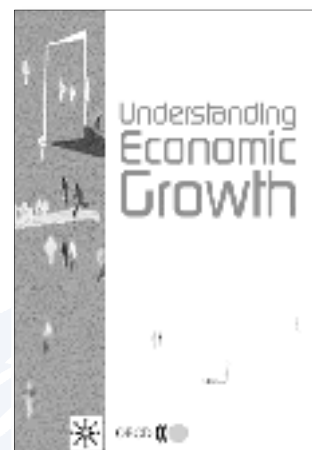
Such an upturn would be welcome, after the oil-price induced slowdown last year. Higher energy prices have cut real incomes, dented consumer confidence and exerted a drag on domestic demand. These negative effects would have been more severe without the reduction in OECD countries' dependence on oil, which thankfully has almost halved since the 1970s. Moreover, the inflationary consequences of rising energy prices have been more contained than after past oil shocks, thanks to central banks' commitment to low inflation. A relatively fast absorption of the oil price increase can therefore be expected, followed by a stronger growth momentum in 2005-2006. The consolidation of corporate balance sheets and the strong rise in profits should also stimulate business investment and support economic growth. In addition, with the dissipation of uncertainties, consumer confidence is likely to increase and private consumption should pick up.

However, a number of risks cloud the outlook, as outlined in the December 2004 issue of the twice-yearly *OECD Economic Outlook*. Besides further fluctuations in energy prices (*see box on Oil, page 22*), the persistence of large external imbalances could have adverse consequences, such as higher long-term interest rates, especially in an environment where fiscal deficits remain large. The relatively high level of house prices might also be a source of risk in some countries. Outside the OECD, the strong expansion of China, while providing a welcome contribution to global growth, requires careful policy management to avoid overheating. In the face of these risks, making national economies resilient to adverse shocks appears more important than ever.

Building economic resilience

www.oecd.org/eco/structural_issues

Why is it that if several countries face the same economic shock, some bounce back faster than others? The OECD has been working to answer this question since the worldwide burst in the high-tech bubble early in the decade. Stock markets and investment in information and communications technology (ICT) fell everywhere, but some economies proved more resilient than others. The slowdown was brief in Australia, Canada, the United Kingdom and Spain and output rebounded rapidly in the United States. But the shock led to a protracted period of weakness in less resilient countries, particularly in the euro area. These differences partly stem from changes in macroeconomic policies, notably strong monetary and fiscal reactions in the United States. However, most of the difference came from the behaviour of households, with private consumption and home buying remaining dynamic in resilient countries.



This book provides facts, figures and analysis of economic growth in OECD countries. It identifies the fundamental drivers of growth during the last decade and looks at how and why countries react differently to these drivers.

DID YOU KNOW...
that the US current account deficit is the largest ever recorded?

Outsourcing, employment and growth

www.oecd.org/sti/industry-issues
dsti.contact@oecd.org

Outsourcing of industrial production, often outside the OECD area, has attracted increasing attention in recent years. The process, where businesses procure items such as the parts used in manufacturing a motor vehicle, from an outside supplier or manufacturer, is driven by competitive pressure on companies to increase productivity and reduce costs. This trend has existed for many years, but seems to have accelerated recently and extended beyond the manufacturing sector to services and higher-value activities. Higher productivity and reduced costs provide the long-term basis for rising living standards, but against a background of sluggish job growth, it presents the spectre of more production and jobs moving away from OECD countries and raises questions about the future of manufacturing in advanced economies.

But outsourcing to developing countries is only part of a wider phenomenon, that of the globalisation of production and rising cross-border activities of multinational enterprises. These firms are adopting new business strategies which retain their core competencies while outsourcing a wide range of other functions, thus creating new business opportunities around the globe. OECD countries themselves have been major beneficiaries of these trends, as reflected in the contribution of inward foreign investment to employment and productivity in OECD manufacturing sectors.

Much outsourcing reflects the fact that manufacturing firms now buy services that they previously produced in-house. For example, they realise efficiency gains and cost savings by purchasing ICT-based services and reorganising internally to better reap the advantages of information technology. Manufacturing jobs are being reclassified as services, and the skill requirements of services jobs are being upgraded.

Against this background, OECD ministers at their annual meeting in 2004 encouraged the OECD “to help dispel fears about international outsourcing” and any potential adverse effects on workers, companies and communities. This more systematic empirical overview of the impact of outsourcing on employment, productivity and innovation in different sectors and countries will build on an OECD study on *Enhancing the Performance of the Service Economy*, to be reported to OECD ministers at their annual meeting in 2005. It will help explain the changing nature of manufacturing and its strategic importance to OECD economies, as well as lead to a sounder basis for policies to strengthen growth, employment and productivity in a context of increased outsourcing and globalisation.

DID YOU KNOW...
that foreign affiliates account for more than 15% of services sector employment in Belgium and Hungary?



DID YOU KNOW...
that 20% of ICT-based service jobs in OECD economies may be candidates for outsourcing?

Taking stock of structural reform

www.oecd.org/eco/structural_issues

While several OECD economies have performed strongly since the start of the decade, others have shown persistent sluggishness. In these countries, modest growth has put public finances under strain and, given the prospects of population ageing, a return to strong growth seems a long way off under current policy settings. Little economic convergence across countries is foreseeable in these circumstances, and growing divergence is even considered as a plausible scenario. To address this challenge, policy makers have sought to undertake reforms favourable to stronger performance, using the OECD as a forum where country experiences are discussed, best practices are identified and policy lessons are disseminated.

It is in this context that further work has been done to determine what drives long-term performance. New studies have analysed how labour market and other policy reforms interact to influence economic growth. Cross-country indicators have been made available to help governments compare their performance and policy setting vis-à-vis other countries. For instance, new indicators assessing the strictness of regulation on product markets show that much was done to liberalise these markets, even though there is room for further regulatory reform in many countries. Together with OECD work in other policy areas, this also helped to establish a rich set of comparable cross-country indicators covering policies on the labour market, product market, taxation, education and international flows.

Based on this wealth of information, a new annual publication, *Economic Policy Reforms*, was launched to take stock of progress in implementing growth-friendly structural reforms and improving performance. The first issue, *Economic Policy Reforms: Going for Growth*, published in March 2005, suggests a number of policy priorities, tailored to each country's individual circumstances. This work aims at helping policy makers shape their policy agenda as well as informing the public debate.

The suggested policy priorities fall into two groups. The first consists of policies to boost labour utilisation. In a number of countries, most notably in continental Europe, the underutilisation of labour resources saps real incomes and output. In particular, the participation of older workers remains well below OECD standards, despite recent pension reforms, pointing to a need for further changes in tax and benefit systems. Similarly, disability benefit schemes appear in need of reform. On the demand side, reducing the cost of unskilled labour in relation to average wages remains an important policy priority.

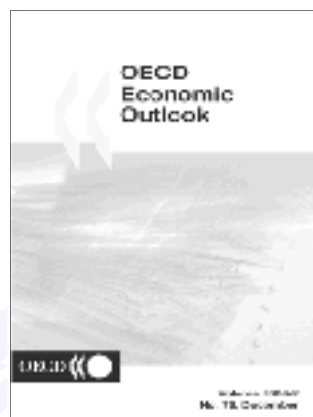
The other group of recommendations aims at boosting labour productivity, most notably in Japan and newer OECD members. Strengthening the performance of education systems would go in this direction. In addition, lifting barriers to competition would spur productivity, including through greater opening to trade and foreign direct investment.



This new annual report highlights developments in structural policies in OECD countries and gives recommendations for the future.

Differences in housing markets played an important role. Households in resilient countries benefited more fully from declining interest rates, thanks to the way their mortgage loan markets worked and the ability to withdraw housing equity; in addition, their housing wealth grew rapidly, spurring confidence and spending. By contrast, the transmission of the easier monetary policy stance appears to have been slower and less effective in non-resilient countries.

Beyond this, it is likely that resilience stems from structural policies, insofar as they promote the flexible adjustment of wages and resource allocation following adverse shocks. The OECD analysed such developments extensively in 2004, as reported in various publications, including Working Papers and regular *Economic Surveys* of individual countries.



www.oecd.org/competition

dafcomp.contact@oecd.org

Competition and growth

The consumer benefits of more competitive markets, such as lower prices and greater choice, are better understood and documented than the effects of competition on other areas such as innovation, productivity and employment.

The *OECD Economic Surveys* from 2003 to 2006 are examining how the strength of market competition is linked to growth and other measures of overall economic performance.

www.oecd.org/daf/financialmarkets

daf.contact@oecd.org

Role of financial markets

Financial markets have become increasingly global in recent years, requiring increased co-operation among regulators and policy makers. The OECD provides a forum where officials from OECD and non-OECD countries, often in co-operation with the private sector, can discuss financial market developments and structural changes.

In 2004, the OECD enhanced its short-term monitoring of financial market developments. Although balance sheets in the banking sector held up reasonably well, concerns about pension fund liabilities and about the transfer of financial risk to the household sector continued to grow. These developments pose ongoing challenges for financial institutions, regulators and policy makers.

Longer-term projects in 2004 recognised the importance of competitive, efficient financial markets, especially in light of ongoing consolidation and convergence among financial institutions, both within and across national borders, although a number of areas of concern were identified. The conflicts of interest that sometimes arise in these cases were the focus of a series of projects on maintaining integrity, confidence and transparency in financial markets. An OECD White Paper, released in 2005, looked at "The Governance of Collective Investment Schemes". During the year, the OECD finalised guidelines for the governance of insurers and of private pension funds. These guidelines are expected to be approved by the OECD Council in 2005.

DID YOU KNOW...

that 25 countries around the world have mandatory private pension systems, and only eight of them are members of the OECD?

Coping with volatile oil prices

www.oecd.org/energy

Oil prices increased markedly during 2004, at one point reaching nearly double their level of the late 1990s in dollar terms. Even though prices have since retreated somewhat, the sustained increase raised the possibility that a fundamental shift had occurred. In light of this, the OECD has begun to analyse trends in the supply and demand for oil and to review the longer-term implications of higher oil prices.

Strong global demand for oil is one of the main reasons for the rise in prices. Oil consumption appears likely to remain high in the future, notably in North America, but also in fast-growing emerging economies, such as China. Emerging countries tend to consume large quantities of energy per unit of gross domestic product (GDP) and therefore account for a large part of the increase in demand.

On the supply side, global oil reserves appear relatively ample, but their distribution is increasingly concentrated on the Middle-Eastern members of the Organisation of Petroleum Exporting Countries (OPEC), while outside resources should become gradually smaller and more expensive to develop. This concentration of supplies could give rise to tensions, including bottlenecks in oil transportation.

Given these trends, model simulations suggest that oil prices should increase steadily in the long term, confirming the perception that the price shock observed in 2004 could last for some time.

Despite sharply higher oil prices, inflationary pressures have remained relatively well under control. While headline inflation has accelerated, reflecting sharply higher energy prices, there has been little pass-through to core inflation (which does not include food and energy prices), and wage settlements have generally remained moderate. Thanks to the credibility established by central banks in controlling inflation, significant rises in interest rates have been avoided and policy makers have not had to deal with higher inflation and lower output in the wake of higher oil prices.

Nonetheless, higher oil prices may lower output through various other channels, including by depressing confidence. Policies to reduce dependence on imported oil would therefore contribute to greater economic stability. In this respect, a high tax component in the final price of oil helps to reduce reliance on oil and hence the impact of such oil shocks.



The OECD continued its work on demographic challenges and their implications for financial markets. It also began work to identify good practices in fostering better financial education of individual savers. This is to help ensure that households are capable of managing their increased exposure to financial risk as a result of longevity and the transfers of credit and other risks from the financial sector. Additionally, the move to funded pensions means that households need to be better equipped to manage investment risks and thereby ensure adequate retirement income.

Insurance and pensions

OECD work to promote best practices in insurance and pensions in 2004 included a Recommendation on Core Principles of Occupational Pension Regulation and the widening of the Code of Liberalisation of Current Invisible Transactions to cover insurance intermediaries and private pension schemes. Recommendations on good practices for insurance claims management were also developed.

The past year witnessed a spate of natural disasters that impaired balance sheets and put some financial institutions under stress. OECD work published in late 2004 looked at the management of large-scale disasters, whether natural catastrophes, accidental man-made disasters, or terrorist acts. The OECD also completed a checklist of criteria to define terrorism for the purpose of compensation and looked at potential private sector and government roles in covering mega terrorism risk and providing terrorism insurance.

The OECD completed a major study in 2004 of *Private Health Insurance in OECD Countries*. The study offers a comparative analysis and typology of the various functions of private health insurance, an overall assessment of the private health insurance market in interaction with public schemes, and identifies best practices and effective regulatory models.

The OECD continues to play a lead role in the private pension debate. In 2004, the OECD completed a study on supervisory structures and methods for private pension systems, analysed pension funds for government sector workers, and evaluated insolvency insurance schemes for defined benefit plans. Statistical data for private pension systems in OECD and selected non-OECD countries were released for the first time, information that will help governments understand the ongoing process of consolidation and convergence in the financial services area. ■

DID YOU KNOW...

that Switzerland's pension funds are the largest in relation to the domestic economy, with assets equivalent to 130% of GDP?

www.oecd.org/insurance

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This publication is a practical tool for government pension officials, academic and business communities, and journalists.



(Left to right)

Polish Under-Secretary of State at the Economy, Labour and Social Affairs Ministry and Polish Co-ordinator for Co-operation with the OECD, Miroslaw Zielinski, and the UK Minister of State for Trade, Investment and Foreign Affairs, Mike O'Brien.

Science and technology

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The OECD identifies effective policies and practice for strengthening the contribution of science, technology, innovation and education to sustainable economic growth and employment creation. It also provides policy advice on coping with the challenges arising from developments in new science-based industries, notably biotechnology.

Current work is focused on topics identified by OECD science ministers at their meeting in January 2004. These include strengthening links between industry and science. Work on intellectual property rights (IPR) and on access to the results of publicly funded research aims to increase the diffusion and exploitation of scientific and technological research. Ensuring adequate supplies of human resources for science and technology is another top priority. Work on science and technology indicators in 2004 focused on measuring the information economy, biotechnology statistics and globalisation indicators.



Fostering innovation

www.oecd.org/sti/innovation
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How can scientific research best contribute to innovation and economic growth? The OECD helps governments answer this question by examining innovative performance in individual OECD countries and in specific sectors, such as biotechnology, energy and knowledge-intensive services. The 2004 edition of the *Science, Technology and Industry Outlook* examined innovation in services and multinational enterprises, as well as policy developments to foster innovation in OECD and certain non-member countries. The OECD is also developing new approaches to assessing the effectiveness of government financing of business research and development (R&D) – a key element of many national efforts to boost R&D spending.



(Left to right)
OECD Deputy Secretary-General Richard Hecklinger with Hong Kong, China Secretary for Commerce, Industry and Technology, John Tsang, and Austrian Federal Minister of Economic Affairs and Labour, Martin Bartenstein.

Work on public-private partnerships for innovation in 2004 included peer reviews of such programmes in Australia and Austria as well as a conference in Moscow in December, co-hosted by the Russian government, on the policies that can foster industry/science linkages through the development of such partnerships. Other work examined the governance of innovation policy, which often extends across ministerial boundaries, as well as the role of IPR, in particular patents, in stimulating innovation and economic performance.

Dealing with spam

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The ever-increasing amount of spam – unsolicited e-mail sent to a large number of addresses – in circulation undermines trust and confidence in online services and endangers the use and reliability of e-mail as a communications medium. An international corporate mailbox-filtering company reports that in January 2003, 24.4% of e-mails were identifiable as spam. By September 2004 that figure was up to 72.14%. Global figures for non-corporate mailboxes cited are even higher at 94.5%. Frequently, spam is used as a vehicle to disseminate viruses, perpetrate fraud and deliver objectionable content to unsuspecting recipients. Spam also inflicts direct monetary costs on business such as wasted network resources and reduced worker productivity. And when spam deters people from using online services, the benefits resulting from efficiencies in the digital economy are lost.

The OECD in 2004 mobilised its policy expertise in the areas of telecom, information security, privacy and consumer protection to tackle this challenge. Two workshops were held on spam, the first in Brussels hosted by the European Commission, and the second in Busan hosted by the Korean government. These workshops informed policy makers on the spam business model, its technical requirements and ominous spread beyond e-mail to mobile phone text messages. As a result, the OECD set up a special Task Force on Spam to study, document and promote a range of anti-spam strategies.

The Task Force is developing an Anti-Spam Toolkit to help governments tackle this scourge; a strategic information resource encompassing a review of regulatory strategies, international enforcement co-operation, self-regulatory measures, anti-spam technologies, education and awareness-raising activities, co-operative partnerships, metrics and outreach.

As a global problem, spam requires effective international co-operation to develop and implement solutions. The OECD is working with other international organisations such as the International Telecommunications Union (ITU) to ensure broad exposure for its work on spam. In order to maintain the open character and economic promise of the Internet, as well as safeguard privacy, solutions to spam must avoid placing unnecessary burdens on Internet users (both individuals and businesses) or on Internet and e-mail service providers.



Carlos Romero Sanjinés, Ministry of Communications, Peru, at the 2nd OECD workshop on spam held on 8-9 September 2004 in Busan, Korea.

Biotechnology

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Biotechnology is an increasingly important driver of sustainable growth and development. In response to a request from member countries, the OECD in 2004 prepared draft guidelines for licensing genetic inventions, which were released for public comment in early 2005. The draft guidelines offer principles and best practices for licensing genetic inventions used

The bio-economy

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Advances in the life sciences are already fulfilling the prediction that this will be the century of biotechnology. Capturing the economic, environmental, health and social benefits of biotechnology will challenge government policy, public information, law, education and the scientific and technological infrastructure. Indeed, biotechnology will impact on our daily lives much as information technologies have.

Advances in biotechnology have the potential to improve health, the environment, and industrial, agricultural and energy production, and will create significant opportunities for sustainable growth in the OECD area and beyond. When interactions with information and communication technologies, bio-informatics and nanotechnologies are taken into account, the potential is even greater.

These developments have led to the adoption of the term “bio-economy” to describe a more resilient and “bio-based” economy that is less susceptible to uncontrollable global events, that decouples industrial growth from environmental degradation and that uses life-sciences knowledge to realise societies’ aspirations for better health and a more sustainable future.

Securing the full benefits of such a bio-economy will require careful management of both supply and demand sides of this economy in markets where government interventions are rife. For example, in order for new biomedical innovations to deliver better health, greater consistency is needed in the way governments influence supply of and demand for innovation. This is especially true in a world where health spending is likely to remain constrained.

OECD work on the bio-economy focuses on key fields for policy makers. In the area of health, for example, current work is concentrating on encouraging access to the benefits of health-related genetic inventions, on the governance of human genetic databases, and on drivers for innovations in biomedicine that meet human health needs. In the environment field, work centres on clarifying the costs and benefits of a move to more bio-based industrial processing and production, as well as on how this can be achieved. The OECD is also working to identify the best practices and pioneering policies that are helping to break ground in this new field. A conference in autumn 2005 will look at how countries are progressing towards a bio-economy.

DID YOU KNOW...
that almost half of biotechnology patents come from the US and a third from the EU?

for human healthcare. The guidelines will be finalised in late 2005 or early 2006. The OECD is also developing methods to track movement towards a “bio-economy” (see box page 26) and to assess and formulate the policies to help deliver it.

Future studies

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The OECD’s International Futures Programme (IFP) provides early warning of emerging issues, pinpoints major developments and analyses key long-term concerns to help governments map strategy. Many of the issues are economic or social, but some have a strong science and technology dimension. This is the case with work on the future of space-based applications such as earth observation, telemedicine and satellite navigation, or preventing potential abuse of research and resources in the biosciences.

In October 2004, the IFP launched a project to examine global infrastructure needs and recommend action that governments could take

The security economy

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Organised crime, terrorism, disruption of global supply chains, computer viruses – all have played a role in raising people’s awareness of the risks they face in today’s world. The result has been the emergence of a USD 100 billion market for security goods and services fed by growing demand from governments, businesses and private households. With globalisation and technological progress continuing at a rapid pace, the security economy is expected to expand further in the years ahead. New identification and surveillance technologies such as biometrics and radio frequency ID are coming on stream, and satellite-based monitoring is set to play an ever greater role. These developments promise to have far-reaching economic and social impacts over the longer term. The challenge for policy makers is how to meet the apparent need for greater security without unduly impeding economic efficiency, or privacy and other democratic rights.

The OECD published its first report examining these issues in 2004, entitled *The Security Economy*. The report argues that improving security involves two types of costs: the investment needed to put in place the requisite security arrangements, and the second-order impacts that these security arrangements may have on the sector in question or the economy as a whole. Tighter security, for example, may mean longer delivery times, disruption of global supply chains and interference with finely-tuned just-in-time delivery systems. These frictional costs tend to increase the costs of business transactions and reduce trade flows. Similarly, tougher controls on movements of people across national borders can impose delays and efficiency losses. New technologies can help to reduce these costs, but they in turn have potential implications for data protection and privacy concerns. A better understanding of the complexities of the emerging security economy is key to anticipating how and when governments should intervene, and identifying which policies deserve priority.



to substantially raise the overall level of public and private investment in energy, water, transport, communications and other tangible physical infrastructures.

Global Science Forum

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The mandate of the Global Science Forum, which discusses international co-operation and makes recommendations on major scientific projects and issues, was extended in 2004 for five years until 2009. Current activities are in the areas of earthquake science, grid computing, neuro-informatics, social safety and security, impacts of rising interdisciplinarity in science, and the decline of interest in science studies by young people. In February 2004, the Global Science Forum's Task Force on Radio Astronomy and the Radio Spectrum delivered recommendations on harmonising the advance of radio astronomy with the rapid expansion of satellite-based telecommunications. In August 2004, the Global Science Forum approved a series of findings and recommendations regarding future big projects and programmes in astronomy.

Harnessing ICT

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Information and communications technology (ICT) is growing and maturing to bring about pervasive changes in economic and social activities worldwide. In OECD countries there are more than 100 million "always on" broadband subscribers; probably the fastest-growing communications technology ever. Every government in the OECD is now offering services on line and, in many countries, almost all businesses have Internet access. Work on measuring the information economy continues and the 2005 *Science, Technology and Industry Scoreboard* will provide key data tracking the progress of OECD countries towards a more knowledge-based economy. The *Information Technology Outlook 2004* describes the latest developments of ICTs, their use in business and their impact as a major driver of economic growth

International travel security

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Terrorist attacks on many countries have highlighted the need for global solutions to improve international travel security. Verifying the identity of travellers in a more accurate manner and exchanging information in real time have become two important subjects of research and development in this area.

The OECD and the International Civil Aviation Organisation (ICAO) have joined forces to improve border-crossing security without compromising personal privacy or making it more difficult to travel. Experts of both Organisations help to develop guidance for all member countries on an information technology infrastructure capable of transmission of data in real time, including biometric identifiers in travel documents. Their work draws on OECD policy recommendations for privacy and information security, and ICAO specifications, standards and recommended practices related to facilitation.

and structural change, notably the dynamics of employment creation and global sourcing of goods and services.

Advances in technology and healthy competition make commercially viable telecommunication services available even in remote communities. In October 2004, Portugal hosted an OECD Workshop on developing broadband access in rural and remote areas.

Patent facts

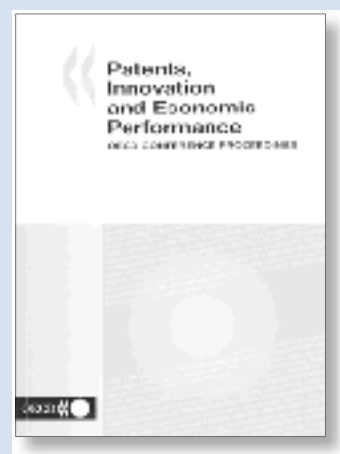
www.oecd.org/sti/ipr
www.oecd.org/sti/ipr-statistics
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Over the past decade, the number of patent applications filed at major patent offices has grown by more than 40%. Policy makers face the challenge of ensuring that patents promote innovation not only by granting exclusive rights to inventors but also by facilitating diffusion of technology. The OECD has undertaken considerable work to help policy makers achieve both these objectives.

Good policy decisions require good data. The OECD, in collaboration with other producers and users of patent data, has been developing the infrastructure needed to construct patent-based indicators. The database, methodological reports and an updated compendium of patent statistics are made freely available on the OECD Web site.

To provide solutions, a sound understanding of the problem in all its various dimensions is needed. A survey completed in collaboration with business in 2004 found that increased inventiveness and growing investment in research partly explain growth in patenting, but more strategic behaviour among patentees, expansion in the range of patentable inventions and strengthened rights of patent holders also play a role. These themes are examined in the proceedings released in 2004 of the OECD conference on “Intellectual Property Rights, Innovation and Economic Performance” that brought together more than 100 business executives, economic researchers and policy makers.

Current OECD work focuses on policy mechanisms to encourage diffusion and exploitation of patented technologies. Two workshops were organised with the Chinese authorities during 2004 to better inform Chinese policy makers of the importance of intellectual property rights and to help strengthen China’s intellectual property rights framework. In the field of biotechnology, draft guidelines for good licensing practices for genetic inventions were completed in early 2005 and released for public comment. Related work will explore new approaches to valuation and exploitation of intellectual property, such as through the broader licensing of patented technology throughout OECD economies. This work, which will be presented to ministers in 2006, is part of a larger effort to understand better the role of intellectual assets in creating value for businesses and economies. Intellectual property, like patents, is a key element alongside other intellectual assets such as human capital and R&D investment.



DID YOU KNOW...
 that more than 14% of OECD patents are owned by firms based in a country that is not the inventor's?

The second phase of the World Summit on the Information Society will be held in Tunis in November 2005. OECD work on the links between ICTs and economic growth, social development and performance of enterprises will provide some of the fundamental arguments presented at this meeting. In early 2005, the OECD co-organised two preparatory thematic meetings for this Summit – “The Economic and Social Implications of ICTs”, in Antigua in January and “Measuring the Information Society” in Geneva in February.

ICT provides a number of tools to help government function better. *E-Government for Better Government*, to be published in 2005, highlights the vision of a “multi-channel” administration in which ICT resources support both online and offline service delivery. Coupled with accountability in the use of data and appropriate data protection, this approach can deliver on the promise of better government.

Internet delivery has moved a long way from initial concerns about tax and e-commerce. The OECD is also looking into digital delivery of content such as music or online games, where converging technologies are challenging established market structures and regulatory frameworks. This work recognises that the rapid development of high-quality “always on” broadband Internet services is transforming high-growth industries that provide or have the potential to provide digital content. Four studies of digital broadband content have been prepared, covering scientific publishing, music, online computer games and mobile phone content.

Another key factor for improved efficiency and user access to services is trust in the digital economy. OECD countries have set up a task force to work on the problems posed by unsolicited e-mail messages, or spam. In September 2004, the OECD launched an anti-spam “toolkit” as the first step in a broader initiative to help policy makers, regulators and industry restore trust in the Internet and e-mail (see box page 25).

Online security, privacy and trust

User trust in information systems and networks is one element for the development of the digital economy and remains a strategic priority on the OECD agenda. Ensuring security, privacy and consumer protection are all key components of user trust online. Work in 2004 and 2005 focuses on ensuring that governments, industry, and users of systems, whether businesses or individuals, play their part in advancing the global “culture of security” as called for in the 2002 OECD Guidelines on the Security of Information Systems and Networks. A first report on initiatives taken in member countries to implement the Security Guidelines was published in June 2004, as well as a report on legal and policy frameworks for electronic authentication and e-signatures (August 2004). The OECD also keeps updating its “culture of security” Web site with practical tools and other online resources available in member countries to help governments, businesses and the public understand the related risks and responsibilities. Work will continue in 2005, including outreach to non-member economies. ■



This report explores the evolution of the space sector in the next three decades, covering its military, civil and commercial uses and technological advances in areas such as nanotechnology and robotics.

www.oecd.org/sti/security-privacy
www.oecd.org/sti/cultureofsecurity
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Industry

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Improving the performance and competitiveness of industry is of central concern to OECD governments. But the environment for industry has changed with implications for industry-related policies. Rapid technological advances, globalisation and heightened competition are altering the landscape for enterprises.

The OECD collects statistics and develops indicators to track changes in industrial structure, performance and productivity. It analyses the behaviour of large firms and multinational enterprises and assesses the challenges facing small and medium-sized enterprises. It studies the shift of economies from manufacturing to services at national and global level and the need for new policy responses. It also reviews performance and issues in specific sectors such as steel, shipbuilding and tourism.

Industry and growth

www.oecd.org/sti/micro-policies
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All countries place a high priority on the competitiveness and productivity of their industries and firms as well as on their contribution to economic growth and job creation. In an increasingly globalised marketplace characterised by fast technological development and the emergence of new competitors, OECD countries are keen to restructure their economies towards high value-added and knowledge-intensive activities. Ongoing work on micro-policies for growth and productivity uses quantitative and qualitative benchmarks to identify effective approaches that can be used as a basis for policy reform.

Peer reviews of country performance in specific policy areas complement the benchmarking exercise. In 2004, agreed sets of policy recommendations were drawn for venture capital. These included easing quantitative restrictions on institutional investors and using public equity funds to



(Left to right)

Professor at Fribourg and Geneva Universities, Switzerland.
 Paul Dembinski; Management Director, UNCTAD, Victor Busuttill; OECD Deputy Secretary General, Herwig Schlögl; and President, Geneva International Academic Network (GIAN).
 Jean-Marie Dufour at the signing of a Memorandum of Understanding between GIAN, OECD and UNCTAD on GIAN financing towards the Joint Project on the Role of SMEs in Global Value Chains.

leverage private capital. Peer reviews were also conducted on policies for enhancing human capital and realising its potential, specifically on developing highly-skilled workers for future industry needs. Countries reviewed in 2004 include Canada, Finland and Sweden. Results from these reviews suggest that governments should, among other things, increase

Fostering entrepreneurship

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Fostering entrepreneurship has moved to the top of policy makers' agendas in advanced industrialised countries as well as in emerging and developing economies. In July 2004, the OECD created the Centre for Entrepreneurship, Small and Medium Enterprises and Local Development (CFE). The Centre brings together the OECD's expertise in small and medium enterprises (SME) and entrepreneurship issues, and its extensive experience in local economic and employment development, to serve as a one-stop shop for OECD work in these areas. The Centre's mission is to foster an entrepreneurial society, which seizes the opportunities provided by globalisation and innovates to promote sustainable growth, integrated development and social cohesion.



The CFE undertook a number of activities in 2005 following the 2nd OECD Ministerial Conference on SMEs in Istanbul in June 2004, the Istanbul Ministerial Declaration adopted there and in the framework of the OECD Bologna Process, which encourages dialogue and co-operation between the OECD and non-member economies on SME and entrepreneurship policies. In 2005, work began to examine the role of smaller firms in global value chains in selected industries and services. Another project was launched to develop a handbook on evaluation of SME and entrepreneurship policies.

Dialogue with policy makers continued on SME financing to identify innovative solutions for improving access to capital. The study's findings and recommendations will be reviewed at an OECD conference hosted by Brazil in early 2006. Work has also begun to reinforce the quality and amount of SME and entrepreneurship-related statistics. In particular, the CFE has carried out a survey to develop "entrepreneurship policy indicators".

A new project on integrating employment, skills and economic development was also launched. This major initiative surveys the experience of ten countries to identify effective ways of co-ordinating labour market policy and economic development strategies, both essential for realising local development potential. Work was completed on a major project on skills upgrading for the low-qualified, which has identified key incentives for both employers and employees to invest in talents for all categories of workers. A conference in Italy in June 2005 will review the results of a study analysing how to foster entrepreneurship among graduates and young people in order to better deliver and assess entrepreneurship training in higher education.

firm-level training through co-financing arrangements and reduce tax measures that discourage skilled workers from taking jobs. Other peer reviews address policies for diffusing information and communications technology to business and approaches for creating effective public/private research partnerships.

Services performance

www.oecd.org/sti/service-sector
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The services sector accounts for 70% or more of total GDP in most OECD countries. In 2004, work continued on a two-year project on “Enhancing

Shipbuilding and steel

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The steel and shipbuilding industries have for decades benefited significantly from government subsidies and other support. There has been growing consensus, however, that such support is counterproductive and results in substantial distortions to international markets. In 2002, governments from major producing areas agreed to try to limit most support to the two industries, by negotiating binding agreements that would complement, but at the same time go far beyond, existing World Trade Organization (WTO) disciplines. The OECD is currently working with relevant parties to advance the talks on both shipbuilding and steel. Both sets of talks include OECD and major non-OECD producers that collectively account for more than 95% of world production.

Participating economies generally agree that a new **shipbuilding** agreement should strongly inhibit the use of subsidies and perhaps other support measures, and that it should be supported by appropriate remedies and an effective dispute settlement process. However, there is no agreement on whether or not it should also contain a pricing discipline that would be the equivalent of that contained in the WTO antidumping agreement. The OECD set up a Special Negotiating Group in 2002 to draw up a new Shipbuilding Agreement. By the end of 2004, negotiations had moved discussions beyond consideration of policy issues to considering legal text for certain parts of the agreement. The negotiations are expected to finish by the end of 2005.

Work on an advanced negotiating text for a **steel** agreement was completed in mid-2004. Parties generally agree that all specific subsidies to the steel industry should be banned, but that there should be a limited number of general exceptions. The scope of such exceptions could not, however, be resolved. There is also general agreement that developing economies, under certain conditions, should be eligible for preferential treatment. But there are differences on how such preferences should be structured. Before proceeding further, the high-level group overseeing the process decided, in June 2004, that it would be beneficial for parties to consult with one another to determine whether there was scope for advancing the negotiations. The Group agreed to meet in the second half of 2005 to determine how to proceed.



DID YOU KNOW...
that the OECD negotiations on shipbuilding and steel are truly global ones?

Performance of the Service Economy". Work so far has shown that overall economic growth and prosperity will depend on policies that can improve productivity in the service sectors while also creating new services jobs. The job-creation challenge comes at a time when new technologies and the opening of markets are making it possible for firms to get a competitive edge by outsourcing services activities internationally. The project, to be reported to OECD ministers in 2005, identifies the salient trends in services development, whole-economy barriers to reform in the services sector, the trade dimension and the role of technology and innovation. A key part of this work identifies best practice policies that can be adopted in OECD countries by drawing on the most recent statistical data and learning from success stories that emerge from case studies. Analysis of the services economy is crucial to future OECD policy studies in the whole domain of globalisation and structural adjustment.



(Left to right)
OECD Deputy Secretary-General, Herwig Schlögl, and European Commission Trade Director, Ian Wilkinson, at the High-Level Meeting on Steel in June.

Fostering entrepreneurship

Entrepreneurship is central to the sound functioning of market economies. The Centre for Entrepreneurship brings together 20 years of OECD experience in working on local economic development and employment, as well as small and medium enterprises (SMEs), and builds on synergies between the two areas (see box page 32).

The Centre's work in 2004 included policies for promoting women's entrepreneurship, social inclusion at local level, skills-upgrading for low-qualified workers, integration of immigrants in the labour market, the role of local development agencies in the renewal of local economies and the links between inward investment and local development.

www.oecd.org/cfe
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Intellectual assets

The role of intellectual assets in enterprise performance is of increasing interest to policy makers. Intangible factors such as research and development, trade secrets, brands and organisational capital are becoming the key to competitiveness. The OECD is working to improve the measurement, valuation and reporting of these assets as well as analysing their impact on the performance of firms and the economy. As the strategic importance of these assets becomes better recognised, the protection of these assets and the prevention of their illegal exploitation is also high on the policy agenda.

A Forum on Business Performance and Intellectual Assets in October 2004 brought together 80 participants from industry, government and academia to explore issues relating to intellectual property rights and industrial performance, including effects on innovation and corporate accounting for intangible assets. ■

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— Employment, social cohesion and environment

Employment and social cohesion

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High unemployment, exclusion and poverty tear at the fabric of society and can unravel economies. The OECD helps governments find ways to boost employment and improve social welfare by reforming labour markets, tackling poverty and exclusion, adjusting social systems to ageing societies and ensuring that children get the best possible start in life.

It studies employment and earning patterns in individual countries as well as how and why people move between jobs and between countries, and how technology affects workers, as well as ensuring adequate investment in human capital and training.

DID YOU KNOW...

that close to 10% of people in OECD countries live in households where no-one has a job?

Employment policies that work

www.oecd.org/els/employmentoutlook

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The job market is recovering in the OECD area as a whole, but there is much unfinished business. More than a third of people of working age do not have a job, and close to 10% of the OECD population lives in households where no-one works. This is costly in both social and economic terms. Up to two-thirds of those without a job would like to work, and non-employment is costly for the public purse in many member countries, where most non-employed people of working age receive unemployment, disability, early retirement, or other social benefits. Population ageing has added pressure to



(Left to right)

Finland's Permanent Under-Secretary of State, Finance Ministry, Juhani Turunen, with Finland's Minister of Social Services and Health, Liisa Hyssälä and N. Gregory Mankiw, who chairs the US Council of Economic Advisers and the OECD Economic Policy Committee at the ministerial meeting in May 2004.

raise employment rates. If nothing is done in the next few years, ageing will reduce available labour resources, with adverse consequences for economic growth and prosperity.

Work on employment in 2004 focused on the reassessment of the policy recommendations in the OECD Jobs Strategy in light of population ageing and

DID YOU KNOW...
that the actual retirement age in OECD countries is 64.1 years for women and 63.3 for men?

International migration

Bringing more migrants into OECD countries may be part of the solution to population ageing, but this brings to the fore the question of their integration into the host countries. As immigration flows are likely to continue to increase in coming years, the OECD in 2004 began reviewing how host countries can help immigrants integrate into the labour market. Reviews of Sweden, Germany and Australia were begun in 2004 and France, Denmark and Italy will be reviewed in 2005. The studies will examine whether, over time, immigrants tend to show the same range of labour market outcomes as the native population. If integration into the labour market does not necessarily guarantee social integration, it is certainly a major step in an immigrant's ability to function as an autonomous citizen in the host country and for ensuring both acceptance of immigration by the host-country population and the sustainability of migration policy over the long term.

The review of Sweden showed that the country is receiving more migrants who have left home on humanitarian grounds than in the past and that this group is slower to integrate than economic migrants seeking jobs and better living standards.

Sweden's economic crisis at the beginning of the 1990s was especially hard on immigrants and it was more difficult for them to find new jobs when the economy recovered. The government needs to find ways to encourage more immigrants to take advantage of language and vocational training. Sweden also needs to expand and streamline recognition of qualifications obtained in other countries. Work experience is critical. Discrimination is a problem and programmes to encourage acceptance of diversity seem necessary. There are, nonetheless, positive signs. People of immigrant background earn almost the same as native Swedes of comparable education. Moreover, immigrants with similar Swedish literacy levels tend to achieve similar levels of jobs and wages, regardless of where they came from originally. In addition, immigrants seem to exit from temporary agency work into other jobs more readily than the native-born. Labour shortages may solve the problem of integration over the medium term, but better labour market integration now would make it easier to ensure that human resources are put to their best use later.

www.oecd.org/migration
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This annual report analyses recent trends in migration movements and policies in OECD countries and beyond, with particular attention to the growing number of migrants from China and Russia.

structural change. This reassessment was requested by OECD employment ministers in 2003. The 2004 issue of the annual *OECD Employment Outlook* urged governments to combine job strategies with other social objectives such as combating poverty, as well as looking at ways to support lifelong learning and help workers improve their skills.

As part of the reassessment of the Jobs Strategy, the 2005 issue of the *OECD Employment Outlook* will examine policies to improve employment chances for job seekers and other benefit recipients. A general case can be made for policies that help combine adequate income support for job seekers with strong work incentives. Another key issue will be how to tailor employment policies to the needs of the local labour market and reduce barriers to labour mobility, like expensive housing, to make it easier for people to move to areas where jobs are available.



(Left to right)
Austrian Federal Economy and Labour Minister, Martin Bartenstein, and Australian Trade Minister, Mark Vaile at the OECD ministerial meeting in May 2004.

Putting the young to work

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

Improving job prospects for under-represented groups, particularly younger workers, is a big part of the job challenge. Youth unemployment (aged 15-24) is still in double figures in two out of three OECD countries, and 15% of this age group are neither at school nor in the labour market. It is all the more important to integrate these young people into the labour market as the ratio of older people in the population rises. A new set of reviews of employment policy in OECD countries, to begin in 2005, will look at how to ensure that youths have adequate skills and that they are used effectively in the labour market.

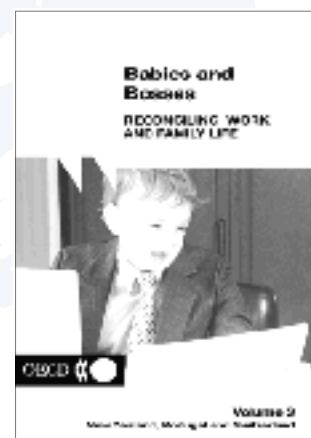
DID YOU KNOW...
that two out of three people of working age and without a job are under 24 or over 55?

Balancing work and family life

www.oecd.org/els/social/familyfriendly
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Nearly one in eight children (12%) in OECD countries live in relative poverty, and OECD work shows child poverty rates continuing to rise, reflecting a long-term deterioration in the relative incomes of families with children. Some countries have introduced specific child poverty targets in response. One effective way of reducing child poverty is to increase maternal employment. The result of a failure to reconcile work and family life is both low employment rates and low birth rates (the subject of another area of current OECD work), which in turn make the challenge of financing a sustainable retirement income system much more difficult.

The OECD series *Babies and Bosses* has reviewed the reconciliation of work and family life in a number of countries and found that, too often, parents face a choice between pursuing a career and looking after their children. A third report in the series covering New Zealand, Portugal, and Switzerland was published in 2004, taking to nine the total number of countries covered so far. A fourth issue on Canada, Finland, Sweden and the United Kingdom is being prepared for publication in 2005.



Ageing, pensions and employment

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A few decades from now, there will be many more elderly or young people than there are people of working age in all OECD countries, and our current patterns of pension funding and early retirement will become unworkable. As the age balance in OECD countries changes, more needs to be done to

Social lives

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Finding work for the jobless and helping the disadvantaged to acquire the skills to get higher pay are the best ways to reconcile economic and social progress. Promoting employment is also crucial for responding to population ageing and to the challenges it poses to the financing of social protection. This involves encouraging more women in the paid labour market, delaying the age at which people actually stop working and reforming social programmes.

Designing income support programmes to achieve the twin goals of encouraging employment and reducing poverty confronts governments with difficult choices. Unemployment benefit and other welfare payments may help prevent those without work from falling into poverty, but if the benefits are higher than their likely earnings, they will also reduce the incentive to take a job. At the same time, if benefits are lowered to encourage job taking, this may expose families to real distress. The uncomfortable situation of many OECD countries is that they fail to achieve *both* of these goals: in several OECD countries, withdrawal of benefits above a given income level exposes recipients to high risks of prolonged benefit-dependency and joblessness, while benefits of last resort are not generous enough to escape poverty.

A comprehensive range of measures is needed to tackle poverty and exclusion. These include completing the welfare-to-work agenda, but also policies to “make work pay”, and to make more effective those social programmes aimed at people for whom work is less feasible.

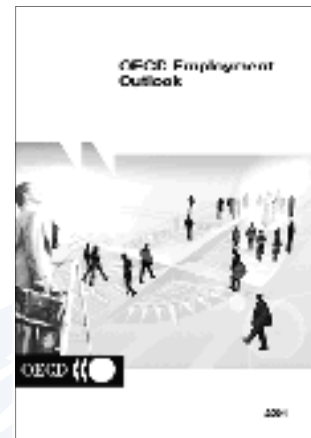
How to ensure that poverty rates are kept low and employment rates high was a key theme for a meeting of OECD social policy ministers in early April 2005. There are some signs of success here – decades of widening income distribution have been halted in some countries, often those that have moved furthest and fastest in welfare reform. But poverty rates remain high, and some of the most difficult reforms have not yet been started. Ministers also considered whether governments are always best placed to finance and deliver social protection, or whether employers, trade unions, or the private and not-for-profit sector could usefully complement their roles. Two publications were prepared as background to the ministerial discussions: *How Active Social Policy Can Benefit us All*, and the 2005 issue of the two-yearly *Society at a Glance*.



The latest edition includes demography, families, employment, working mothers, poverty, social spending and health spending.

encourage older people to keep working, at least until the official retirement age. Pension reform is one key element. A new OECD project monitoring pension reform, to be published in 2005, shows that some countries have made significant progress in finding a new, more sustainable balance between the generations, offering a decent pension at an acceptable cost to the working-age population. In others, however, further reforms are required.

But pension reform alone will not be enough. Social security systems often provide alternative routes to early withdrawal from the labour market such as long-term sickness benefits. Moreover, older workers often face discrimination in the workplace, lack the skills sought by employers or face poor working conditions. The OECD is reviewing these issues in its *Ageing and Employment Policies* series. Eight country reviews were published in 2004, bringing the total so far to 12, and the full series will cover 21 member countries. Key lessons that have emerged from these reviews will be discussed at a high-level policy forum in Brussels in 2005.



Benefit systems, income and poverty

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The gap between rich and poor widened in OECD countries during the second half of the 1990s, continuing its long-term trend. To reduce it, countries either have to encourage more people into employment, or to alter their benefit systems. This was one of the main themes of the meeting of OECD Social Policy Ministers in 2005 (see box page 38). During 2004, the OECD updated its *Benefits and Wages* series to show how tax and benefit systems interact and affect different types of household and family situations in terms of poverty reduction and incentives to work. Information on income distribution and poverty has also been updated and extended to a larger number of OECD countries.

International migration

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A number of OECD countries are recording increases in migration flows. *Trends in International Migration* shows that a part of these flows continues to be shaped by the magnitude of family reunification, persistent labour shortages and the consequences of population ageing. The OECD is currently carrying out in-depth case studies on the integration of immigrants into the labour market (see box page 36).

Enhancing human capital

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Continuing adult learning after the period of formal education enhances human capital, with a strong positive impact on productivity, wage growth and employment chances for individuals. The OECD Thematic Review of Adult Learning, to be published in 2005 under the title *Strengthening Society's Skills through Adult Learning*, has examined policies in 17 OECD countries to encourage investment in adult learning and tackle inequities in access. It shows that the low-skilled are the most vulnerable to inequitable access to training – in Denmark, people with tertiary education are twice as likely to receive adult learning, while in Spain, where the gap is widest, those with tertiary education are 12 times more likely to have a chance of further learning than the low-skilled. ■

DID YOU KNOW...
that the OECD birth rate fell from 2.7 children per woman in 1970 to 1.6 in 2002?

Education

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Changing economic and social conditions have given education an increasingly central role in the success of individuals and nations, and it accounts for a significant amount of spending in all countries. The challenge for governments is to ensure that the learning opportunities on offer respond to the needs of a rapidly-evolving knowledge-driven society.

The OECD helps member countries achieve high-quality learning for all that contributes to personal development, sustainable economic growth and social cohesion. In 2004, education ministers from OECD countries met in Dublin to debate ways to improve the quality and equity of their education systems.

DID YOU KNOW...

that, on average, 12.7% of public spending in OECD countries goes to education?

Making the most of education

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www.oecd.org/edumin2004

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Governments need information to make decisions about their education systems. The annual *Education at a Glance* offers a statistical basis for policy debate and decisions in the world's most developed countries. The 2004 report highlighted factors affecting the future supply of qualified people and the relationship between educational attainment and employment and earnings. Also, for the first time, the 2004 report examined how the division of responsibilities between schools and local, regional and national authorities has evolved in response to demands for more efficiency, increased responsiveness to local communities, innovation and quality improvement.

The Programme for International Student Assessment (PISA) conducts regular assessments of the achievements of 15-year-olds in OECD countries. In 2004, *Learning for Tomorrow's World* gave the latest results on performance in reading, mathematics and science (see PISA box page 41). Following up on

Education ministers from OECD countries met in Dublin on 18-19 March 2004 to debate ways to improve the quality and equity of their education systems.



Measuring performance: what PISA teaches us

How good are schools at providing young people with a solid foundation of knowledge and skills that will serve them well for life and learning beyond school? The OECD's Programme for International Student Assessment (PISA) offers the most comprehensive and rigorous international method available to compare different countries' education systems and to suggest ways of making them more efficient.

The second PISA survey, published in 2004, showed that Finland had further improved its performance in mathematics and science since the first survey in 2000, to place it on a par with the previously unmatched Asian countries while maintaining its top performance in reading. In Poland, significant improvements among lower-performing students have driven a rise in overall performance, following a major reform of the education system in 1999. Smaller but still noteworthy improvements occurred in Belgium, the Czech Republic and Germany.

But PISA goes beyond an examination of the relative standing of countries in mathematics, science and reading. It looks at a wider range of educational outcomes, including students' motivation to learn, their beliefs about themselves and their learning strategies. It examines how performance varies between boys and girls, and between socio-economic groups. And most importantly, PISA sheds light on countries that achieve high performance standards while providing an equitable distribution of learning opportunities.

PISA suggests that success is associated with a positive, results-oriented learning environment. Many of the countries that perform well in PISA have been working towards this for years. They have progressively shifted education policy and practice away from merely controlling resources, structures and content and towards managing learning outcomes. They have established clear educational objectives and are systematically assessing whether they are being achieved. Schools in these countries typically enjoy more autonomy but also tend to be more accountable for their results. They rarely have the option of making poorly performing students repeat the school year, or transferring them elsewhere, although this is common in many lower-performing countries.

The challenge for countries with relatively less efficient education systems is to use this knowledge to help students to learn better, teachers to teach better, and schools to be more effective.

Further PISA assessments in 2006 and 2009 will enable countries to monitor their progress in meeting key learning objectives, and help to explain how school resources, policies and practices interact with home background and influence student performance.

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This report presents the latest results of the OECD's Programme for International Student Assessment (PISA) survey. This year, the focus is on mathematics.

DID YOU KNOW...
that 15-year-old girls generally read more than boys?

earlier PISA results, the meeting of OECD education ministers in Dublin in March 2004 focused on policies to improve the level of student performance and equity issues.

Formal childhood education has to provide the foundations for continued learning and training throughout adult life. *Completing the Foundation for Lifelong Learning, an OECD Survey of Upper Secondary Schools* provided internationally comparable data on these schools and shed light on how they are managed and financed, as well as their approach to securing quality.

The OECD is also reviewing education systems in individual countries to examine why they perform well or poorly. Countries reviewed in 2004 included Denmark, Ireland, Turkey, Bulgaria, China and Chile.

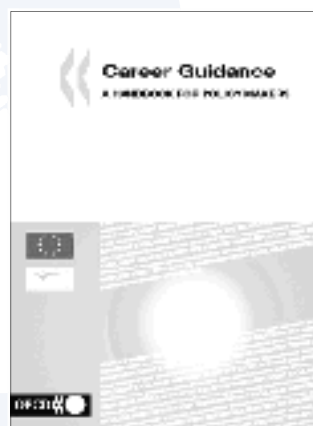
DID YOU KNOW...

that people with tertiary education tend to earn 25% to 50% more than those with lower education?

Learning for life

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Education does not operate in a vacuum; it needs to be part of a broader socio-economic policy. Are young people entering the workplace equipped with the skills employers need? Do they understand that they are likely to need new skills throughout their working lives and do they know how to learn? *Career Guidance and Public Policy: Bridging the Gap*, published in 2004, reviewed how the organisation, management and delivery of career information and guidance services can better contribute to lifelong learning as well as to labour markets and social policies.



If all agree on the importance of lifelong learning, who pays for it – government, employers, unions, individuals themselves – remains a thorny issue. *Co-financing Lifelong Learning: Towards a Systemic Approach* reviewed recent experience with initiatives to facilitate the co-financing of lifelong learning.

Other significant work was carried out on early childhood education, competences and qualifications, and adult learning, and reports on these will appear in 2005.

Promoting quality teaching

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Teachers directly influence what students learn, their attitude to learning and their motivation for lifelong learning. But many countries face a looming crisis as large numbers of teachers are due to retire in the next 10-15 years. Already, due to shortages, students in disadvantaged areas are often taught by the least experienced and qualified teachers.

The results of a 25-country review of policies to improve the supply and development of effective teachers were published in 2004. *Attracting, Developing and Retaining Quality Teachers* looked at issues such as improving recruitment and supply of teachers; enhancing the status of the teaching profession; and improving the quality of teachers' initial education. The education ministers' meeting in Dublin asked the OECD to do further work on teacher-related issues, including internationally comparable data on teachers, teaching and learning.

DID YOU KNOW...

that, on average, in OECD countries a third of students "drop out" before completing their first degree?

Better quality learning for all

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What are the signs of a good educational system? Certainly strong skills and technical competencies among school-leavers and graduates. But countries are also concerned about equal educational opportunity. The question of equity in education was one of the key issues discussed by OECD education ministers when they met in Dublin in March 2004 to discuss “Raising the Quality of Learning for All”.

Social factors are often cited as reasons for variations in educational performance within countries, but ministers noted that according to the latest international studies (see PISA box page 41), social disadvantage does not automatically result in poor student performance and urged the OECD to work further in this area to help countries better understand the processes that shape quality and equity in students’ results.

There are four key principles for testing educational systems in terms of equity of access to learning.

- **An inclusive approach** to access and selection at key transition points in the education system (such as the move from primary to secondary school) as well as within each phase of education. This means ensuring access to real quality of learning for all, and not second-class education for some people because of social status or disability. This implies having systems to offer a second chance to those disadvantaged for whatever reason.
- **Fairness in funding**, between institutions and regions, between different phases of education and fairness in how grants and loans for students are determined. This includes fair provision for programmes targeted at disadvantaged groups.
- **An effective political and legal framework**, allowing individual and group inequities to be challenged and redressed.
- **Tools to address equity issues systemically**, including the availability of good data, so that equity problems can be identified; mechanisms for co-ordinating the interests of different phases of the education system and different parts of government; and the capacity to devise systemic policy solutions.

Commitment to these four principles does not guarantee equitable outcomes, but it does help ensure that institutions and policies are in place to diagnose equity problems and develop and implement solutions. The OECD is examining these issues through a thematic review covering 10 OECD countries, with visits to Sweden, Finland, Spain and Hungary in 2005 (the first visit was to Norway in 2004). The final comparative report, due in 2006, will report on country strengths and weaknesses.



This report provides a rich, comparable and up-to-date array of indicators on the performance of education systems.

Rethinking higher education

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Higher education has grown and diversified in all OECD countries in recent decades and the international nature of the market is becoming more evident. The regulatory capacity of national and regional education authorities is being challenged by increasing mobility of students and workers across borders, as well as by new possibilities of cross-border delivery via Internet. The OECD examined these issues in *Quality and Recognition in Higher Education: the Cross-border Challenge* in 2004. It has also been collaborating with UNESCO on guidelines for cross-border tertiary education that will enhance learner protection while respecting countries' rights to regulate the quality of their systems.

The OECD continued to help the international education community to build common understandings and make an informed input into trade negotiations on educational services, all issues addressed in *Internationalisation and Trade in Higher Education: Opportunities and Challenges*. Reviews of the tertiary sector have been conducted for Finland, Switzerland, Denmark, Ireland, Chile and China under the individual country review programme. An additional 21 countries will be covered in a two-year study of the sector under the thematic review programme of the tertiary sector.

The OECD also reviewed the role of new technologies in managing higher education institutions, and the two-yearly general conference of the Programme on Institutional Management in Higher Education (IMHE) concentrated on the challenges posed by the knowledge economy to higher education institutions.



Education and society

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Issues of social cohesion are of growing importance in many OECD countries. The OECD is looking at the whole question of equity in education (see box page 43), and in 2004 extended its work on improving statistics and indicators on social outcomes for special needs students to countries outside the OECD.

School buildings themselves are an important social entity, given the concentration of young people attending them. *Keeping Schools Safe in Earthquakes* and *Lessons in Danger* examined the danger to schools of earthquake and other disasters and schools' broader role in communities – not the least of which is their common use as places of refuge after an earthquake or other disaster.

Building new futures for education

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What will our future schools look like? What kinds of teaching and learning will take place in them? The OECD helps governments identify key issues for the future and the factors which most influence their shape. In two reports published in 2004 – *Innovation in the Knowledge Economy, Implications for Education and Learning* and *Measuring Knowledge Management in the Business Sector, First Steps* – the OECD analysed the drivers that have helped speed up innovation in other sectors and identified a number of basic characteristics of education systems preventing innovation. ■

Sustainable development

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How can we meet today's needs without diminishing the capacity of future generations to meet theirs? Sustainable development implies a broad view of human welfare, a long-term perspective about the consequences of today's activities, and global co-operation to reach viable solutions.

The OECD helps countries to find a balance between the economic, environmental and social aspects of sustainable development and to measure how successful they are in achieving it. OECD ministers in 2004 reviewed results of a three-year project on sustainable development and identified areas for future work.

Making development sustainable

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Measuring progress towards sustainable development is not easy because of the complex interactions between the economic, environmental and social elements. The OECD finalised in 2004 a three-year project to help meet this challenge by examining the links between the three aspects of sustainable development and identifying sustainable development indicators which were used in OECD economic surveys over 2002-2004.

In 2004, ministers looked at the results of the project and asked the OECD to continue its work on mainstreaming sustainable development. They asked the Organisation to look at obstacles to reducing environmentally harmful subsidies and to using economic instruments to measure progress. It also asked the OECD to draw lessons from countries' experiences to date with sustainable resource use, including material flow accounting (*see box page 48*), decoupling environmental pressures from economic growth and resource productivity. Sustainable development experts from OECD countries will hold annual meetings in 2005 and 2006 to discuss these challenges.



(Left to right)
Advisor to the President of Suez on Sustainable Development Issues and Chair of the BIAC Environment Committee, Thierry Chambolle, and Assistant Director-General of the Sustainable Development Cluster, WHO, Kerstin Leitner, at the OECD environment ministers' meeting in April 2004.

Social-economic aspects

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The OECD has long stressed the importance of a well-functioning social protection system that can address social problems and maintain the conditions necessary for economic growth and environmental sustainability. Special chapters on sustainable development in *OECD Economic Surveys* of individual countries have focused on the sustainability of retirement income systems in OECD countries and on ways of improving living standards in developing countries. The sustainable development project recommended that countries where progress in assuring the financial sustainability of public pension systems has been slow should speed up reforms without compromising adequate incomes in old age.

The sustainable development project noted that trade restrictions and domestic subsidies continue to make access to OECD agricultural markets difficult for developing countries. It also recommended placing greater emphasis on poverty alleviation in development assistance and the delivery of more targeted and efficient aid, particularly for improving health, as this has helped raise living standards in developing countries.

Sustainable agriculture

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Agriculture, which uses 40% of available land and 45% of total water supplies in OECD countries, has a significant impact on the environment. A summary of a decade of OECD work on agriculture and the environment, released in 2004, showed that there has been some reduction in the pressure on the environment from agriculture across OECD countries, but progress has been mixed. Nutrient run-off from farming has decreased in many countries, reducing nutrient levels in water, but significant pockets of high concentrations remain. Pesticide use and agricultural greenhouse gas emissions have fallen.

OECD countries are using policy measures to address the environmental performance of agriculture in areas such as biodiversity, carbon sinks, flood control and landscapes. However, payments specifically targeted to environmental outcomes only account for around 4% of producer support and farmers often face conflicting policy and market signals. For example, production-linked support can encourage environmentally harmful practices while at the same time governments are putting other policies in place to counteract those harmful effects. A key message is that the policy costs of improving environmental performance would be lower with policies better targeted to desired environmental outcomes and without production-linked support.

Concern that tougher environmental regulations in one country can make its farmers less competitive can lead to demands for trade restrictions. But the available evidence suggests that this concern is exaggerated, since the extra costs of such regulations are a small fraction of overall production costs and some products that are subject to rigorous environmental standards can command a price premium in the market.



Since the Earth Summit of 1992, OECD countries have been intensifying efforts to promote global economic development that is environmentally and socially sustainable. This publication looks at what they have achieved so far.

The OECD is also analysing the effect of subsidies and the use of economic instruments to achieve sustainable fisheries (see *Agriculture and fisheries chapter*, page 67).

DID YOU KNOW...
that, on average, 1.5% of OECD agricultural land is used to produce organic food?

Strengthening the economic efficiency of environmental policies

www.oecd.org/eco/structural_issues/environment

The OECD's three-year project on sustainable development, which was completed in 2004, found that environmental performance has improved in several respects since 1990, and OECD countries continue to set targets for further improvements. Environmental protection costs also rose throughout this period, and amount to about 2% of gross domestic product (GDP) or more in countries that have set comparatively demanding standards. However, the OECD found these costs could have been reduced by at least 25% through a greater use of more cost-efficient instruments or – alternatively – more ambitious environmental objectives could have been achieved for little or no additional cost.

But failure to integrate both environmental and economic concerns in policy making has made it difficult to obtain benefits from more cost-effective instruments. Concerns over the social consequences of environmental policies and political economy considerations have also increased costs as they have led to exemptions or softer requirements for some of the highest polluting activities. But costs of measures to limit damage to the environment could rise markedly in the future as standards become stricter, thus reinforcing the need to use cost-efficient options. This is particularly the case with the reduction of greenhouse gas emissions as the 2012 target date for reaching the first round of commitments under the Kyoto Protocol approaches.

The OECD has examined these issues in extensive work on environmental policy design and implementation and through its inclusion of environmental issues in its *Economic Surveys* of individual OECD economies. This analysis formed a key element of the sustainable development project, which recommended less emphasis on regulations and voluntary agreements and greater use of environmentally related taxes and tradable permits. It urged a multi-pronged strategy to pursue subsidy reform, including better targeting of subsidies and being more open about subsidy policies. The OECD has also recommended taking advantage of international agreements that concentrate efforts to address cross-border environmental problems in areas where results can be obtained at lower cost.



This survey contains a chapter on sustainable water supply.

Material resource flows

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Natural resources are a foundation of economic activity and human welfare. They provide raw materials, energy and other inputs, as well as environmental and social services. Making sure that they are managed well and used efficiently is key to economic growth and development.

In recent years, demand for fossil fuels and other material resources such as nickel, aluminium and zinc has been growing in the OECD area and other countries, including China, pushing up prices. As a result, productivity and sustainable use of these resources have gained importance for economic policy, trade and business.

Reliable information about how resources are being used and by whom – material resource flows – is fundamental to monitor the economic efficiency and environmental effectiveness of resource use. Such information already exists, but is insufficient to fully understand the economic role of natural resources or to give an integrated view of how minerals, metals, energy, timber or water flow through the economy, from the moment they are mined, felled or imported through processing, consumption and recycling to final disposal.

In April 2004, OECD governments agreed to step up co-operation to learn more about material resource flows and productivity by developing common measurement systems and indicators, thus also responding to a request from the G8.

In 2005 and 2006, the OECD will work with its members and international partners to establish a common knowledge base on material resource flows and resource productivity. It will provide material flow accounts and indicators and guidance on how to construct and use them, as well as examples of good practices that countries may wish to draw upon. This knowledge base will support informed policy debates on the role of natural resources in economic growth and development.

Round Table on Sustainable Development

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How to increase the use of renewable energy in electricity production, or improve sanitation in developing countries? These were among the issues dealt with by the ministerial-level Round Table on Sustainable Development at the OECD in 2004. The Round Table provides an informal alternative to traditional negotiating forums which can become bogged down in process and formality, bringing in stakeholders such as NGOs and business leaders to talk “off-line” with a core set of engaged ministers.

In September, representatives of the World Business Council for Sustainable Development met ministers to discuss ways to achieve sustainable mobility over the next 25 years. In November, the Round Table provided feedback to an International Task Force on proposals for institutional reform and financing mechanisms for global public goods.

In 2005, the Round Table will consider whether a sectoral approach would be a useful component to international efforts to combat climate change. ■



Environment

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A healthy environment is a prerequisite for a strong and healthy economy and for sustainable development (see *Sustainable development chapter, page 45*). OECD countries are successfully tackling many environmental problems, but many others remain or are emerging. What is more, problems like air pollution or climate change do not respect national borders, and require co-operative action at the international level, or co-ordinated packages of policies across regions and sectors.

The OECD provides governments with the analytical basis to develop environmental policies that are effective and economically efficient, including through performance reviews, data collection, policy analysis, and projections.

Much work in 2004 and beyond is focused on implementing the OECD Environmental Strategy for the First Decade of the 21st Century following a meeting of environment ministers in April to assess progress. The Strategy identifies broad objectives to achieve environmental sustainability and lists 71 agreed national actions to be taken, as well as specific indicators used to measure country progress (see *box page 51*).



This book provides an overview of the latest ways of assessing the global benefits of climate change policies.

Coping with climate change

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The threat posed by climate change is one of the key concerns of the 21st century. The OECD helps member countries assess appropriate policies to help meet this challenge. It also contributes analytical work to international forums, such as the UN Framework Convention on Climate Change (UNFCCC), notably through the Annex 1 Experts Group, comprised of OECD and transition countries. During 2004, this group completed reports on the implementation of the Clean Development Mechanism, climate-related



(Left to right)
 OECD Deputy Secretary-General, Kiyotaka Akasaka, with Executive Secretary for the UNFCC (United Nations Framework Convention on Climate Change), Joke Waller-Hunter.

technology development, emissions trading, and institutional capacity building in support of climate policies.

The OECD also took part in the 10th UNFCCC Conference of the Parties on Climate Change and published *The Benefits of Climate Change Policies: Analytical and Framework Issues*. The entry into force of the Kyoto Protocol in 2005 will place new emphasis on the importance of climate change policy analysis.

DID YOU KNOW...

that 10% of children in Europe suffer from asthma, a disease that has been linked to increasing air pollution?

Implementing the OECD Environmental Strategy

OECD environment ministers met in April 2004 to assess progress in implementing the ambitious OECD Environmental Strategy for the First Decade of the 21st Century, adopted in 2001. Ministers identified the areas where work is “on track”, and shared experiences on how to overcome obstacles to designing and implementing more effective and cost-efficient environmental policies.

Overall, ministers acknowledged that OECD countries would not meet the environmental goals set for 2010 unless they pursue more ambitious policies. Urgent action is needed in particular to reduce greenhouse gas emissions, limit biodiversity loss and support economic growth that does not seriously damage the environment. Reform or removal of environmentally harmful subsidies to agriculture and ensuring environmentally sustainable transport and energy production are priorities in order to reduce the negative environmental impact of sectoral growth.

Ministers also asked the OECD to look at best practices for developing partnerships among governments, the private sector and civil society to tackle environmental challenges. During 2005 and 2006, the OECD will examine country case studies of such environmental partnerships. The aim is to develop a tool kit which may be used by governments to develop and engage in effective environmental partnerships.

Looking ahead, ministers asked the OECD to undertake analytical work that can help policy makers better understand the benefits of environmental policies as well as the cost of policy inaction. Government officials and key experts from OECD countries were to meet in April 2005 to examine the costs of policy inaction in three key areas: climate change, biodiversity and environment-related health (e.g. the health impacts of air or water pollution).

Ministers stressed the need for OECD countries to work in partnership with non-members to meet environmental challenges. China asked the OECD to begin an environmental performance review in 2005.

Ministers agreed to meet again by 2008 to further evaluate progress in implementing the OECD Environmental Strategy.

www.oecd.org/env/performance

env.contact@oecd.org



This report assesses the progress that OECD countries have made in applying the OECD Environmental Strategy for environmentally sustainable policies.

DID YOU KNOW...

that most of the anticipated increases in temperature and precipitation resulting from climate change will probably occur in the higher latitudes – precisely where most OECD countries are located?

Ensuring that climate change is a mainstream issue in economic development planning processes for both developed and developing countries, is a main focus of OECD work. In November 2004, the OECD organised a Global Forum on Sustainable Development to discuss how responses to climate change can be integrated into development aid and in development planning. Case studies were published in 2004 on the Nile River coastal resources and agriculture and forestry in Uruguay, bringing the number of such case studies on climate change and development to six. In 2005, the OECD will complete a synthesis of the analytical material and work on a policy guidance document related to this project.

Genetically engineered crops

DID YOU KNOW...
that some east European and Central Asian transition economies spend a larger share of national income on the environment than many OECD countries?

www.oecd.org/biotrack
ehscont@oecd.org

Barely a decade after the first genetically engineered crops became commercially available, almost 70 million hectares of transgenic crops are being grown worldwide. The OECD works closely with governments to ensure that high-quality safety information related to such crops is made publicly available. However, different countries often use different names for the same product, which can be confusing. The OECD has recently developed a system of "unique identifiers" so that each plant would have one globally recognised label. Under the system, each new transgenic plant approved for commercial use is given a nine-digit code. This code is added to the OECD's database, which then provides a link to all safety assessments carried out on the product in OECD countries. More than 100 countries who have signed the Cartagena Protocol on Biosafety agreed in February 2004 to use the OECD identifiers. The EU also adopted the system in 2004.

Environment and health

www.oecd.org/env
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Environmental health policy is an area of high importance to many countries. A current OECD project looks at the economic valuation of environmental health risks to children. Following a 2003 workshop to take stock of methodological issues, the project will carry out a series of pilot valuation studies, starting with the UK, Italy and the Czech Republic, aimed at better integrating environment-related health issues into policy making. In 2005, the OECD will begin to examine how improved co-ordination and harmonisation of environmental and health policies would make policy design more effective.

Environment in transition economies

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

The Environmental Action Programme for Central and Eastern Europe, for which the OECD provides the secretariat, organised a meeting of environment ministers in October 2004 in Georgia. The meeting reviewed implementation of the Eastern Europe, Caucasus and Central Asia (EECCA) Environment Strategy adopted in 2003. Ministers agreed that the EECCA countries are at an environmental crossroads. The current situation threatens human health and natural resources; however, rebounding economic growth, EU enlargement, security concerns linked to shared environmental resources and the new international development agenda offer opportunities for improving environmental conditions in this region. Ministers vowed to establish clearer priorities and realistic targets to help focus their domestic resources and guide international co-operation.

DID YOU KNOW...
that more than 10% of the Earth's surface is officially designated as a "protected area"?

Environmentally-related taxes

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

The OECD's current work in this area focuses on how best to overcome obstacles to more extensive use of environmentally related taxes, including how to share the cost between richer and poorer households.

Social impact of environmental policies

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

Sustainable development can only be achieved through a proper balance of economic, social and environmental concerns. However, while the interactions between economic and environmental issues have been studied extensively, the social and environmental interface has, until recently, received relatively less attention. This issue, particularly questions related to employment and the gap between rich and poor, is a priority of Objective 4 of the OECD Environmental Strategy (*see box page 51*).

Environmental policies can affect employment in a number of ways, both negative and positive, and not always directly. For example, policies that encourage the use of renewable energy sources can create employment opportunities in developing and producing renewable technologies, as well as in producing goods and services that are inputs to these technologies. Existing data show that some 1% to 1.5% of the total labour force in most OECD countries is employed directly in the environmental goods and services sector (*e.g.* water and waste management). While the impact of environmental policies on employment may be small compared with the whole economy, new policies may have a significant short-term impact in a particular area or sector, such as energy-intensive industries. The OECD's work in this field underlines the importance of addressing these issues when implementing sound environmental policy. Countries can take measures to alleviate short-term impacts, such as integrating environmentally-motivated tax reforms with broader fiscal reforms.

The question of distribution of the burden of environmental policies such as household energy taxes can affect policy design or, in some cases, impede their introduction altogether. Distributional concerns generally arise when low-income households pay a disproportionately high share of the costs associated with the introduction of environmental policies but receive less of the benefits associated with improved environmental quality. OECD work on distributional issues underlines three main policy conclusions. First, all environmental policies are likely to have some distributional impacts. While these effects have a greater "visibility" in the case of economic instruments, and in particular taxes, they can also arise when using direct regulations (*e.g.* standards). Second, although the distributive burden of environmental policies is generally assessed by considering the direct financial effect on households' expenditures, significant indirect effects may also exist. For instance, a carbon tax can affect the price of fuel, but also of manufactured goods such as cars. Third, when introducing measures to address distributional concerns, policy makers should be careful not to make the environmental policy less effective or cost-efficient.

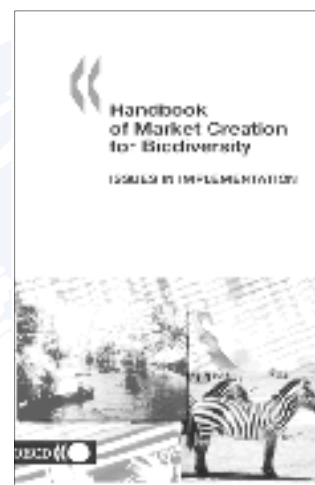
Conclusions suggest that the problem of income distribution is best overcome by direct measures that compensate low-income households, without reducing the environmental incentives of the tax. However, the obstacles to environmental taxes that arise from a concern about their potential impacts on sectoral competitiveness are more difficult to address, and work is continuing in this area through a series of specific country or sectoral case studies.

Business environment

The OECD also looks at how business affects the environment. A roundtable on corporate responsibility in 2004 took the environment as its integrating theme. A 2005 report will provide practical guidance to enhance the positive contribution that business can make to the implementation of the OECD Guidelines for Multinational Enterprises (see *Investment chapter, page 85*).

In 2005, the OECD will finalise a two-year study on environmental policy design and management at the firm and facility level. This work involves a survey of approximately 4 000 manufacturing facilities employing more than 50 workers in Canada, France, Germany, Hungary, Japan, Norway and the United States which explores firms' response to public environmental policy. This detailed information is being compiled in a database and will be used to produce recommendations for drawing up more economically efficient and environmentally effective policies. A summary of the information from each country is available on the OECD Web site. Government officials and experts will meet in Washington DC in June 2005 to discuss the results. An overview of policy recommendations based on the analyses will be released in late 2005. ■

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



(Left to right)
Slovak Republic Permanent Representative to the OECD, Dusan Bella, with Slovak Republic Environment Minister, László Miklós, and Chinese Vice Minister, State Environmental Protection Administration (SEPA), Xinfang Wang.

Health

www.oecd.org/health
health.contact@oecd.org

Good health is necessary for individuals to flourish as citizens, family members, workers and consumers. Improving health is a key concern of OECD societies, as it can contribute to higher economic growth and improved welfare. But the health sector's share of GDP has nearly doubled since 1970 and health now accounts for an average of nearly 9% of GDP in OECD countries.

It is no wonder that improving health-system performance is a major and increasing concern of OECD policy makers and, consequently, the OECD. The main focus of work in 2004 was the completion of a three-year project on how health systems work and how to make them perform better.

Towards high-performing health systems

www.oecd.org/els/health/policy
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Health and healthcare have improved dramatically over the past few decades, but at a cost, and public budgets are feeling the pinch. At the same time, further opportunities to improve the performance of health systems are evident. Developed nations are grappling with issues of how to assure affordable systems with sustainable financing, maintain equitable access to services, attain better health outcomes, increase responsiveness to consumer expectations and improve value for money.

The OECD initiated the Health Project in 2001 to address some of the key challenges policy makers face in improving the performance of their countries' health systems, and to provide guidance on how to seize opportunities for improvement. The Project's component studies evaluated aspects of health-system performance (drawing upon newly collected data, as well as on statistics from *OECD Health Data*), assessed policy options and pointed to avenues for improvement.

DID YOU KNOW...

that in a third of OECD countries, at least 30% of the population has private health insurance?



(Left to right)
 OECD Deputy Secretary-General, Berglind Ásgeirsdóttir with Mexico's Health Secretary, Julio Frenk Mora, who chaired the OECD Health Ministers' Meeting on 13-14 May 2004.

Health Project studies focused on new and emerging health technology, private health insurance, waiting times for elective surgery, physician and nursing workforces, long-term care, equity of service use, cost-containment and other topics of pressing policy concern. Results from many of these studies have been released in a new “OECD Health Working Papers” series. Nearly two dozen titles have been produced since 2003.

DID YOU KNOW...
that total health spending in the United States in 2001 was equal to spending in all the other 29 OECD countries combined?

Healthcare quality indicators

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The technical quality of medical care, long regarded as a professional responsibility rather than a policy issue, now rivals cost and access as a foremost concern for health policy makers. To improve care for their citizens, policy makers are looking for ways to measure and benchmark the performance of their healthcare systems as a precondition for evidence-based health policy reforms.

So there is a growing interest in quality indicators, in other words objective and comparable measures that reflect the effectiveness of medical care, and many OECD countries have instituted national strategies to develop and implement them. Those efforts have brought about some progress in introducing measures at the level of healthcare providers, such as hospitals or physicians, and at the national level.

Current international health data sets, such as *OECD Health Data*, give plenty of information on issues such as average lengths of hospital stay or the number of doctors per 1 000 people in different countries. But there is a lack of comparable measures for the technical quality of care such as success rates from heart or cancer surgery, making benchmarking a difficult task. National measurement systems are being implemented, but these do not lead, except by accident, to internationally comparable quality indicators.

The OECD in 2002 began a project to test the feasibility of collecting internationally comparable measures for the technical quality of care. The long-term vision is to incorporate the quality indicators into *OECD Health Data* to complement the currently available information on healthcare systems in member countries. However, substantial technical and operational issues need to be resolved before taking this step.

So far, experts from the 21 countries taking part in the quality of care project have compiled data for 17 initial indicators to illustrate how such information can shed light on healthcare performance. An example is the influenza vaccination rate for people over the age of 65. There is general agreement that this rate should be as high as possible. However, comparing data between member countries shows that most countries can do much better than they now do, if the highest performer (the Netherlands in this case) is taken as a benchmark.



DID YOU KNOW...
that up to half of total healthcare spending is on the elderly?

The Health Project's final report, *Towards High-Performing Health Systems*, was released mid-2004, followed by a companion volume providing more detailed findings and evidence supporting Health Project conclusions. Several other publications in the OECD Health Project series were released in 2004 and early 2005, presenting findings from component studies.

As part of the Health Project, the OECD developed a framework for assessing the performance of member country health systems. The first two reviews in the new *OECD Reviews of Health Care Systems* series covered Korea and Mexico. Finland and Switzerland are due to be published in 2005.

Results from the Health Project served as the basis of discussion at a first-ever meeting of OECD health ministers in May 2004. Ministers considered approaches to improve health through prevention and healthcare quality improvement strategies. Ministers also explored options for ensuring



Tommy G. Thompson, US Secretary of Health and Human Services at the OECD Health Ministers' meeting.

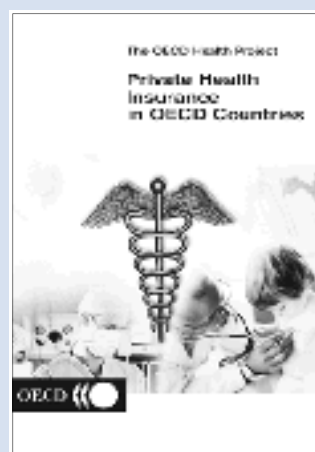
Healthcare financing

www.oecd.org/els/health/policy
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Healthcare financing was an important part of OECD work in 2004, from the point of view of the balance between public and private financing and insurance, and from the perspective of possible long-term public spending increases due to ageing populations.

Private Health Insurance in OECD Countries, the first-ever such comparative analysis, reviews private health insurance markets and identifies policy issues arising from their interdependence with publicly financed health coverage schemes.

The report assesses the impact of private health insurance on health policy objectives, paying special attention to the challenges and benefits associated with different insurance mixes. Continuing work on the impact of ageing on public expenditure also suggests that costs of public health and of long-term care might rise significantly as a result of the growing share of elderly in the population.



This report provides the first-ever comparative analysis of the role and performance of private health insurance in OECD countries.

affordable systems and sustainable financing, and compared experience on alternatives for maximising value-for-money in health systems. They set out an ambitious agenda for future OECD work on health-system statistics and indicators, and analysis of key policy issues.

Keeping track of health and health spending

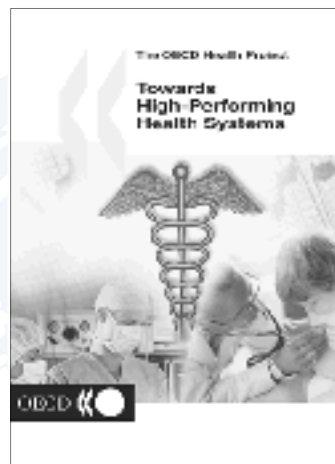
Reliable, comparable and policy-relevant data on health and health spending are vital for researchers, analysts and policy makers alike. Over the past ten years, *OECD Health Data* has served as the most authoritative source of comparable statistics on health and health systems in the main developed countries around the world. It is used extensively for comparative analysis and is quoted in numerous articles, government reports and research papers every year.

OECD Health Data is a comprehensive database with over 1 000 indicators related to health status and risks, the resources and activity of health care systems, and health expenditure and financing across the 30 OECD countries. It is the product of a longstanding collaborative effort between the OECD secretariat and national authorities. The database is released annually in June, on a user-friendly CD-ROM.

The OECD is continually improving the quality and comparability of the health data. The OECD manual, *A System of Health Accounts*, provides an internationally accepted framework for member countries to report health expenditure and financing in a consistent way. Results and comparative analysis from the increasing number of member countries who have adopted the System were released in a set of OECD Health Working Papers in late 2004. Other work to enhance the value and usefulness of OECD health data is in progress.

The third biennial edition of *Health at a Glance – OECD Indicators* will be released in late 2005. This publication presents some of the key indicators contained in *OECD Health Data* and provides striking evidence of the variations across OECD countries in many indicators of health status, healthcare activity and expenditure. ■

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



This volume offers a synthesis of findings from recent OECD studies aimed at answering many of the key questions facing today's health policy makers.



(Left to right)
Netherlands' Secretary-General for Health, Welfare, and Sport, Roel Bekker, with Swiss Secretary of State for Health, Thomas Zeltner.

International trade and taxation

Trade

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The OECD's work on trade supports a strong multilateral trading system that promotes further trade liberalisation and strengthening of rules while contributing to rising living standards and sustainable development. The OECD provides objective, fact-based analysis and dialogue on a wide range of trade policy issues. It seeks to strengthen the constituency for free trade, find common ground among stakeholders on sensitive issues, facilitate negotiations in the World Trade Organization (WTO), and develop and implement export credit principles.

Good progress was made in the area of trade policy in 2004. WTO members reaffirmed their commitment to multilateral trade negotiations and the Doha Development Agenda (DDA) in July. All parties agreed on a framework to proceed with negotiations on such issues as agriculture, services, market access for non-agricultural goods, trade facilitation, and special and differential treatment for developing countries.

DID YOU KNOW...

that the volume of world merchandise trade has multiplied by 18 since 1950?

Export credits

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Governments provide official export credits in support of national exporters competing for overseas sales by providing loan guarantees, export credit insurance and direct loans. In 2002, the amount of business covered by such support was approximately USD 50 billion. The role of the OECD in this area, among other things, involves maintaining and developing the Arrangement on Officially Supported Export Credits, which stipulates the most generous



(Left to right)

European Trade Commissioner, Pascal Lamy and Italian Trade Minister, Adolfo Urso, at the OECD annual ministerial meeting in May 2004.

financial terms and conditions for officially supported export credits, including for ships, nuclear plant and aircraft, and rules for the provision of tied aid. The Arrangement was established in 1978 and since then has continually been enhanced by its Participants to reflect more closely market developments; the prevailing text was agreed at the end of 2003.

A new aspect of the revised Arrangement that came into force at the beginning of 2004 was greater access to information for non-Participant governments. In 2004, the Participants to the Arrangement met with non-Participant governments and civil society organisations, to explain the revised Arrangement; this outreach event is expected to be repeated annually.

At the end of 2004, OECD countries participating in the Arrangement agreed on a two-year pilot programme which will provide greater transparency and efficiency in the use of untied aid credits to developing countries by inviting public bidding from firms wishing to participate in projects financed by aid. Untied aid credits are development assistance loans that can be used to pay for purchases of goods and services from any country, rather than just the country providing the loan. The agreement is designed to create more effective competition in the use of such loans, so as to allow developing countries themselves to choose the goods and services they need at the most advantageous price.

In 2005, the Aircraft Sector Understanding, annexed to the Arrangement, will be reviewed by the Participants to the Arrangement and also by Brazil, and discussion on the financing terms for renewable energy and water projects will continue.

At the beginning of 2004, the OECD Recommendation on Common Approaches to the Environment and Officially Supported Export Credits took effect. The Recommendation ensures that OECD countries evaluate the environmental impact of infrastructure projects supported by their governments' export credit agencies with a view to such projects meeting established international standards. The Recommendation is expected to increase transparency in government export credit agencies' environmental review processes and so to contribute to a better coherence in public policies in the context of sustainable development and good governance. Its implementation will be reviewed annually. Members also agreed in 2004 to strengthen their 2000 Action Statement on combating bribery in international business transactions to ensure the implementation of the OECD Convention and the 1997 Revised Recommendation in respect of such transactions benefiting from official export credit support.

Market access

www.oecd.org/ech/tradepolicy
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Access to markets can be impeded in a variety of ways. Tariffs are an obvious constraint to the movement of goods, as are a variety of other measures such as quantitative restrictions, export duties, non-automatic import licensing and technical barriers to trade. OECD work on tariffs has focused on the implications of further liberalisation for welfare, government revenue and erosion of preferences. Far less information exists for non-tariff barriers, which complicates understanding of their nature, extent and trade effects.

OECD work provides information about the nature, extent and effects of non-tariff barriers existing today. Such analysis is valuable to OECD and non-member governments participating in discussions in the context of the Doha Development Agenda, as well as the broader WTO work programme, particularly on non-agricultural market access and other trade liberalisation initiatives, such as bilateral or regional agreements. The OECD is also exploring the importance of such measures in North-South as well as South-South trade.

Textile trade

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The textile and clothing industries provide employment for tens of millions of people, primarily in developing countries. The rules governing world trade in textiles and clothing changed drastically at the end of 2004, so that countries could no longer protect their own industries by restricting the quantity of textile and clothing products being imported.

This elimination of quantitative restrictions under the World Trade Organization's Agreement on Textiles and Clothing will challenge global sourcing channels that were formed during decades of trade restrictions. This entails considerable adjustment for all stakeholders from cotton producers to fashion retailers, and from the least developed countries (LDCs) to the most developed countries. In particular, textile and clothing producers in both developed and developing countries are worried about the emergence of more competitive suppliers in China who may capture what they would regard as a disproportionate share of the economic benefits arising from the phasing out of quantitative restrictions.

Until now, trade restrictions have contributed to the international fragmentation of the supply chain. This process worked to the disadvantage of the more efficient and quota-constrained suppliers, many of which subcontracted clothing production to low-wage third countries. Hence, the rules benefited the least competitive suppliers, most of which are located in small developing countries and LDCs that have specialised in producing clothing using imported textiles. Such countries are increasingly aware of their vulnerability and are seeking to improve their access to markets within developed countries in order to minimise the expected hardships.

A New World Map in Textiles and Clothing – Adjusting to Change, published in 2004, examines recent market developments in the textile and clothing industries in both developed and developing countries. It highlights the challenges facing governments in the areas of trade policy, labour adjustment, technology and innovation and other regulatory areas that help determine a country's ability to integrate in the world economy. The publication also offers recommendations to help governments establish a coherent policy and regulatory framework that will ensure their industries are ready to meet the adjustment challenges.



The textile and clothing industries account for more than 5% of merchandise exports worldwide. How will things change under new trade rules? This book provides some answers.

Trade in services

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Services are the single largest sector in many economies, representing the bulk of employment and providing vital input for the production of goods and other services. The OECD helps WTO members to manage the complex negotiations on trade in services. There is clear evidence that developing

Trade facilitation

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In recent years, rapid growth in international trade volumes, the globalisation of production and the gradual lowering of tariff barriers have all increased the relative importance of non-tariff barriers caused by inefficient border procedures. Simplifying the process of trade, or “trade facilitation”, has been a specific subject on the World Trade Organization (WTO) agenda since 1996. In July 2004, WTO members agreed to launch negotiations in this area as part of the Doha Round of trade negotiations.

The stated focus of these negotiations will be to clarify and improve existing rules so as to speed up the movement, release and clearance of goods at borders, including goods in transit. A future agreement should take into account the needs and priorities of developing and least-developed countries while addressing concerns about the cost implications of proposed measures and aiming to enhance relevant technical assistance and capacity building.

OECD work on trade facilitation supports the WTO negotiating process by compiling data and providing analysis on the issues under discussion. A measure of the importance of this work is the fact that the OECD was one of the few international organisations invited to contribute to the work of the WTO Negotiating Group on Trade Facilitation.

During 2004 and 2005, the OECD undertook extensive work on facilitation measures proposed by WTO members for inclusion in a future agreement as well as on possible approaches for implementing these measures at national level. Much of this work is based on country best practices and experience. The work identifies constraints and prerequisites, successes and failures, as well as expected benefits of different approaches, to help countries better understand the implications of possible commitments.

OECD analysis sheds light on the costs and benefits of trade facilitation measures. It shows that the benefits of trade facilitation primarily accrue to countries that actively engage in it and that the structure of developing economies means that such countries stand to gain more than OECD countries. A major ongoing project is investigating the cost implications of a range of trade facilitation measures. Preliminary findings indicate that, in many cases, the introduction and implementation of such measures is part of more general efficiency-enhancing endeavours and that their costs are absorbed in the normal operating costs of border agencies.



(Left to right)
Finnish Trade and Development Minister, Paula Lehtomäki, and Irish Trade Minister, Michael Ahern, at the OECD annual ministerial meeting in May 2004.

DID YOU KNOW...
that in some African countries, excessive delays and paperwork account for up to 70% of the cost of a foreign trade transaction?

countries have important service sector export interests in areas such as business services, port and shipping services, audiovisual services, telecommunications, construction services and health services. An OECD study shows that a large portion of benefits from services liberalisation derives not from seeking better market access abroad but from the increased competitiveness and efficiency of the domestic market. This work has been presented at the WTO.

In recent years, transition economies have had to overcome a major handicap because the share of the services sector in their national economies was generally lower than in other countries at a similar level of development. Consequently, their participation in world trade in services was far below their potential. Recent work on this topic has focused on the Baltic countries and a report published in 2004 draws lessons for other transition economies.

Cross-border higher education represents an important source of export revenue in some OECD countries and is increasingly provided through commercial arrangements. Export revenue related to international student mobility alone amounts to an estimated 3% of global services exports. Educational services are included in the current negotiations under the General Agreement on Trade in Services (GATS) in the WTO. The OECD is working on documenting those new trends and their possible policy implications (see *Education chapter, page 40*).



Trade and migration

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The temporary movement of people to supply services (“mode 4” of the GATS) has emerged as a major issue in the current WTO negotiations and raises a number of important and complex issues that reach into the realm of migration policy and practices. The debate on mode 4 is taking place against the backdrop of significant worldwide migration. Long-term factors suggest continued growth in migration, especially from low-income to high-income countries. In 2004, the OECD published a compendium of work on the subject of trade and migration, much of which resulted from a conference that brought together trade and migration officials from 98 countries.

DID YOU KNOW...
 that developing countries as a group place higher tariff barriers on their trade with each other than with OECD countries?

Trade and development

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Much OECD work on trade deals with developing countries. An OECD regional trade workshop on agriculture, services and trade facilitation, was held in Lesotho in October 2004. Non-member participants came from 11 southern and eastern African countries to exchange views with OECD members on these pivotal topics of the DDA and issues of development assistance.

A global forum on trade, held in Bangkok in November 2004 (see *Outreach chapter, page 94*), provided timely input into the ongoing OECD project on trade and structural adjustment, results of which were to be presented to OECD ministers at their annual meeting in May 2005. ■

Agriculture and fisheries

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The OECD's work on agriculture and fisheries covers a broad range of domestic and international issues. It helps OECD and non-OECD governments design efficient and well-targeted policies to achieve domestic policy goals while fully participating in the international trading system. Much of the work provides the analytical underpinning to the Doha Development Agenda negotiations currently under way under the auspices of the World Trade Organization (WTO).

Trade and agriculture

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Work is currently under way to compare the various export competition measures operated by OECD countries and to assess their relative trade impacts. This project relates directly to the export competition pillar of the agriculture part of the Doha Development Agenda and should be completed in late 2005 or early 2006. Building on already completed research covering subsidies, credits and food aid, this pioneering work also includes deficiency payments, price discrimination and state trading.

Some developing countries fear that progress on market access in the Doha talks will erode the preferential access into OECD markets that they currently enjoy, with detrimental consequences for their economies. The OECD in 2004 and 2005 is carrying out an in-depth study of the extent and implications of such erosion of preferential access.

Work on regional trade agreements included the publication in November 2004 of a report highlighting different aspects of the treatment of agriculture in a range of regional trading arrangements, and examining their relationship to the multilateral trading system. The OECD is also investigating the links between foreign direct investment, trade and trade policy in the food sector.



(Left to right)
New Zealand's Minister for Trade Negotiations, Jim Sutton and Korean Minister for Trade Doo-yun Hwang with OECD Secretary-General Donald J. Johnston, at the OECD annual ministerial meeting in May 2004.

The OECD is studying the effects of agricultural and non-agricultural reform and liberalisation to help negotiators and policy makers better understand the impact of reform at both the economy-wide and household levels. Sectoral studies of the effects of total liberalisation of trade in sensitive sectors such as sugar and dairy are under way, and are due to be completed in 2005. In-depth studies of trade and domestic policy in key G20 countries (Brazil, China, India and South Africa) are to be the basis of a high-level dialogue between OECD members and these countries in mid-2005.

DID YOU KNOW...
that OECD countries spend about USD 6 billion on government financial transfers to the fisheries sector?

Tracking support and protection

www.oecd.org/agr/trade
agr.contact@oecd.org

Market access is a key element of agricultural trade negotiations and agreements. The OECD provides the data and analysis that underpin such discussions. It co-ordinates, on behalf of a number of agencies and countries, the Agricultural Market Access Database, an invaluable tool for researchers engaged in trade policy analysis. *OECD Agricultural Policies: At A Glance*, and

The changing food economy

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The analysis of food economy issues is a relatively new activity at the OECD. In broad terms, the focus of work in this area is on the interplay between changing consumer preferences and civil society concerns on the one hand and the rapid evolution in the food supply chain on the other. The core question to be addressed is whether the emerging food system is efficiently supplying evolving preferences and concerns and what type of policy response is required to address any market failures or externalities.

One focal point of ongoing work is the rapid consolidation of firms within the food supply chain and the economic impacts this produces on all players in the food economy, including consumers. The ongoing concentration of food manufacturing and distribution leads to changes in chain management and behaviour. One important aspect of this is the development of industry-designed and -controlled standards for food quality, safety and aspects such as the environment and animal welfare.

What explains the growth in private standards? What does this imply for public standards in the same area? What are the effects on those that cannot meet these standards, in particular traders in developing countries? Are there implications for public policy? The ongoing concentration and consolidation in the food supply chain also raise questions of market power. A key issue in this respect is that of price determination and transmission of price changes along the food chain. This may affect economic gains from policy reform and have implications for competition policy.

Another area of work addresses the various analytical and policy issues related to evolving food lifestyles and consumer concerns. The OECD will carry out an economic assessment of the policy options that governments face in their bid to address consumer concerns. The assessment will look at public/private collaboration as well as issues of policy coherence at various stages along the food chain.



This annual publication analyses world market trends and medium-term prospects for the main agricultural products, showing how these are influenced by government policies.

OECD *Agricultural Policies: Monitoring and Evaluation*, which appear in alternate years, assess domestic and trade policies in OECD countries. The OECD also produces, on an annual basis, the only internationally standardised indicators of the level of support and protection to agriculture in the OECD. The Producer Support Estimate database is available free of charge and is widely used by governments, researchers, NGOs and the media. The annual *Agricultural Outlook* provides a baseline projection against which the trade and market impacts of various trade and domestic policy reform scenarios can be assessed. In 2004 the forecast period was extended to ten years from the usual five.

Agriculture and the environment

Agricultural policies affect agricultural production with consequences for the environment. OECD work is aimed at identifying best policy practices and market approaches supported by indicators of environmental performance, analysis of policy and environmental linkages, and topical issues. In 2004,

DID YOU KNOW...
that three-quarters of support to farmers in OECD countries is linked to commodity production?

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Biomass and bio-energy

The recent rise in oil prices has generated an increasing interest in biological-based sources of energy and materials, or “bio-energy”, including renewable energy from agricultural biomass and raw material feedstock. Biomass refers to organic material, including plants or animal waste, which can be used to produce energy.

There is growing interest by both governments and the private sector to expand markets for energy and materials produced from agricultural biomass. But what does agricultural biomass contribute to sustainable development? What are governments actually doing and how effective are their policies?

The report of an OECD workshop on biomass and agriculture, released in September 2004 and entitled *Biomass and Agriculture: Sustainability, Markets and Policies*, encourages countries to work with markets to facilitate a balance between stimulating demand for bioproducts and developing biomass supply. Until now, policy strategies have focused on the use of subsidies to close the production cost and market price gaps between biomass and fossil fuel products. Policies that focus on research and market approaches can also encourage industry innovation and provide maximum long-term benefits to society.

The report also identifies a need to recognise the potential of local resources and encourage the establishment of biorefineries to recycle a range of farm by-products such as grass, short rotation trees and cereal straws in addition to using grains, oilseeds and sugar.

It is also crucial that international standards and codes of practice are established for these biomass and bioproducts that are traded within and across countries to ensure that greenhouse gas emissions are reduced and environmental benefits are maximised. A better assessment of costs and benefits taking into account economic, environmental and social aspects is therefore needed, as are clear lines of communication between suppliers, processors and potential users.

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What is the contribution of agricultural biomass to sustainable development?
This book proposes a wealth of material relating to agricultural biomass, bio-energy and biomaterials in OECD countries.

DID YOU KNOW...
that about 7% of heat generation in OECD countries is supplied by bio-energy from agricultural biomass?

the OECD published studies examining the environmental and trade impacts of the dairy and pig sectors, and held workshops on agriculture and water, farm management and evaluation of agri-environmental policies.

The underlying philosophy in work on the links between domestic and trade policy is that the optimal policy to achieve domestic objectives in agriculture will often also prove to be optimal in terms of minimising distortions in international trade. This means that policy instruments should be both decoupled from production and targeted to specific objectives. By building these characteristics into policy design, inefficient and wasteful production can be avoided as can the perverse distributional effects that result when support is delivered using production-linked mechanisms. A considerable effort is devoted to better understanding the production and trade effects of different types of policies – the decoupling aspect. Increasingly, attention is also paid to policy design features that ensure a better match between objectives, costs and outcomes – the targeting aspect. There is a general search for market or quasi-market solutions, for ways to reduce policy implementation costs and for integration of agricultural concerns into broader policy frameworks such as taxation and social security.



European Commissioner for Agriculture and Fisheries Franz Fischler, during the OECD ministerial meeting.

Fisheries

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As renewable resources, fisheries pose significant economic and governance challenges for policy makers and the fishing industry. Fish stocks need to be managed in a sustainable and responsible way. Work is under way to analyse fisheries subsidies within the framework of sustainable development. This work will assist the ongoing discussions of fisheries subsidies at the WTO. The OECD has developed a database on fisheries subsidies in OECD countries, according to type of subsidies programme, which will serve as the basis for empirical analysis. The OECD's work on illegal, unreported and unregulated (IUU) fisheries provides analysis in support of the use of various measures to combat such operations, including trade measures. A workshop was held at the OECD in April 2004 to examine the social and economic factors that drive IUU fishing in order to identify more effective methods to combat this problem. A book gathering the results, *Fish Piracy: Combating Illegal, Unreported and Unregulated Fishing*, was published in September 2004.



Illegal, unreported and unregulated (IUU) fishing is a worldwide problem. This book looks at the social and economic factors that drive IUU fishing, and helps identify more effective methods to deal with it.

The OECD is also examining how countries use economic instruments in managing their fisheries. Such instruments seek to achieve sustainable and responsible fisheries and by the same token make the sector more economically efficient. In early 2005, the OECD published an updated inventory of individual OECD countries' fisheries management systems, and will complete an analysis of the way countries use market-type measures to manage their fisheries at the end of the year. ■

International taxation

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Policy makers are looking to tax systems to help solve social and economic problems. But how to adapt international tax arrangements to a new global environment? How should enterprises that operate in different countries be taxed? Can tax systems be simple, fair and effectively administered? The OECD helps policy makers respond to these challenges and shape the tax system of the 21st century.

The OECD's taxation work covers a broad range of activities, including tax evasion, harmful tax practices, electronic commerce and environmental taxes. The OECD produces internationally comparable statistics and engages in monitoring and assessment of policies, including in *OECD Economic Surveys*. National tax systems are analysed, also for their effect on labour, capital and product markets.

Tax treaties

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Cross-border trade and investment would be seriously impeded if taxed twice, once in the source country and again in the country of residence. The OECD Model Tax Convention is the basis for negotiating, applying and interpreting a worldwide network of tax treaties that seeks to eliminate such double taxation.

The Convention requires constant review to keep up with a changing business environment. The OECD will release the next update to the Model Tax Convention in July 2005, with new guidance on taxing profits from international shipping and air transport, cross-border pension issues, and the tax treatment of employee stock options. The text will also include an update of the article which enables treaty partners to exchange information



(Left to right)
OECD Deputy Secretary-General
Richard Hecklinger and Chinese Deputy
Director-General, State Administration
of Taxation, International Taxation
Department, Hailin Lu, at the annual
international meeting on Tax Treaties
held at the OECD on 23 September 2004.

to ensure proper application of their treaties and to verify compliance with their domestic tax laws.

The OECD is developing a manual on practical aspects of negotiating and applying tax treaties, which would provide tax officials with an explanation of tax treaties and a discussion of issues arising in the administration of tax treaty provisions.

The OECD Model Tax Convention is influential both within and without the OECD area: 24 non-OECD economies have, for example, stated their positions on the proposed provisions and interpretations put forward in the Model. The OECD also organises an annual meeting of treaty negotiators which allows tax treaty experts from more than 80 countries to discuss practical issues related to the negotiation and interpretation of tax treaties.

DID YOU KNOW...
that there is a network of 3 000 bilateral tax treaties based on the OECD Model Tax Convention?

Transfer pricing

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The transfer of goods or services within multinational enterprises now accounts for almost two-thirds of world trade. The OECD Transfer Pricing Guidelines seek to ensure that the pricing of goods or services transferred within multinationals is in line with pricing between independent firms. This serves the dual purpose of securing the appropriate tax base in each jurisdiction and limiting the risk of double taxation, thereby minimising conflict between national tax administrations and promoting international trade and investment.

An international consensus on transfer pricing is of vital importance to multinationals; without it they suffer the risk of double taxation. That is why the business community has been strongly supportive of the OECD's work. This consensus continues to grow as the Guidelines are increasingly adopted by non-OECD countries. The OECD is working to formally associate non-OECD economies with the Guidelines and engage in ongoing policy dialogue.

The current focus of OECD work in this area includes monitoring the implementation of the Guidelines and modernising them as appropriate. An analytical paper discussing transfer pricing implications of intra-group arrangements involving stock options was released in September 2004. A peer review of transfer pricing legislation and practices in Mexico was also completed in 2004, and a review of comparability issues (how to tell if a transaction between independent firms is really comparable to a transaction within a group) is ongoing.

The Organisation is also working to extend the current OECD Transfer Pricing Guidelines to Permanent Establishments, with a particular focus on the financial industry. Revised discussion drafts were placed on the OECD Web site for public consultation in 2004, and further revision will be carried out in 2005.

Consumption tax

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Deregulation, technology and globalisation have all contributed to the development of international trade in services and intangibles. However, as such trade has grown rapidly in recent years, so tax issues, especially those

Tax trends and reforms

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Different national tax systems reflect national policy decisions on varied issues such as income distribution, the role of taxation in employment and investment incentives, and the balance of funding of different levels of government. Countries regularly review their tax systems in light of evolving policy objectives. The OECD provides a unique forum where governments exchange views and experiences on such matters. *Tax Policy: Recent Trends and Reforms in OECD Countries*, published in 2004, shows how OECD countries have adapted their tax systems to today's more competitive environment and covers a number of developments in this area. Such reports are now a regular part of the OECD's work on taxation.

Policy discussions regularly draw on international comparisons of tax information reported in the annual OECD publications *Revenue Statistics* and *Taxing Wages*. One notable trend is the recent fall in tax-to-GDP ratios in many OECD countries.

Another recent trend, the reduction of statutory income tax rates, reflects the emphasis that governments increasingly place on removing tax-induced distortions. A number of countries have reduced tax rates on wage income. While tax rates alone do not fully reflect tax burdens, they do offer one indication of trends in recent tax reforms. An example is the lowering of the "all-in" (including local taxes and employee social security contributions) marginal personal income tax rate for high-income earners. This rate dropped by more than two percentage points in the OECD area between 2000 and 2003.

Other recent reforms include increases in the level and structure of family-related benefits delivered through the tax system, and new or modified in-work benefits or wage-subsidy schemes for low-wage workers. Corporate income tax rates have also been reduced since 2000. On the corporate side, the main developments in many OECD countries include continued efforts to reduce distortions in capital allocation, strengthen firms' competitive position and protect the corporate tax base while ensuring that a "fair" share of tax is collected from this sector. In general, these rate reductions sought to encourage employment and investment. The report on tax policy trends and reforms shows that some broadening of the tax base has also occurred. The net effects of these changes on tax-to-GDP figures will be observed in the years to come.



This volume reports on trends in tax revenues, the "tax mix" and the taxation of labour, dividends, and personal and corporate income. It also looks at value added and environmentally related taxes.

DID YOU KNOW...
that the OECD average corporate income tax rate fell from 33.6% in 2000 to 30.8% in 2003?

concerning the application of consumption taxes such as value added tax, have also emerged. Double taxation, uncertainty and inconsistency in application have all been identified as potential barriers to expanding this trade.

In 2004, the OECD published “The Application of Consumption Taxes to the Trade in International Services and Intangibles” which, drawing on experiences from business and government, illustrates many of the problems encountered and sets out a process for tackling them over the next two years. Draft Principles based on this report were released for public consultation in February 2005.

DID YOU KNOW...

that 29 of the 30 OECD countries now operate a Value Added Tax?

Efficient tax administration

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Designing good tax policies and passing appropriate laws is only half the challenge. Making sure that tax laws are administered effectively and fairly is a formidable task. In 2004, OECD work on enhancing tax administration effectiveness and efficiency covered four main areas: tax compliance; taxpayer service; taxpayers’ rights; and benchmarking the performance of tax administrations.

An effective dialogue between member country officials requires a good base level of knowledge on how their respective tax systems are administered. In 2004, the OECD completed a report providing comparative information on important administrative features of the tax systems of OECD countries.

All revenue authorities must confront and deal effectively with a variety of compliance risks to improve overall compliance with the laws. A major output on such work in 2004 was a guidance note, “Managing and Improving Tax Compliance”. This note provides a step-by-step description of a strategic process for identifying, assessing and treating tax compliance risks and associated monitoring and evaluation activities.

Also in 2004, the OECD continued its efforts to promote more effective use of modern technology by revenue authorities, particularly for delivering improved services to taxpayers. This included further work on identifying and promoting technology standards and a comprehensive survey of revenue authorities’ approaches and progress achieved.

The OECD also issued a report on the rights of taxpayers in OECD member countries.



Ensuring fair tax competition

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The main focus of this work is on ensuring that countries can verify that people and businesses are complying with legal obligations to pay tax by improving transparency and establishing an effective exchange of information for tax purposes.

By improving transparency and exchange of information, countries will enhance their ability to crack down on tax cheats and avoid having honest taxpayers shoulder the tax burden of those who violate the tax laws of the

country where they live or do business. This work also contributes to efforts to counter money laundering and the financing of terrorism, and helps to strengthen the international financial system.

Improving transparency involves ensuring that national laws are applied in an open and consistent basis among similarly situated taxpayers, and that the information needed by tax authorities to determine a taxpayer's situation is in place. Such information includes financial information, ownership information and accurate books and records.

Establishing effective exchange of information requires co-operation between governments through bilateral arrangements to share information that is relevant to a specific tax inquiry while at the same time respecting the confidentiality of the information provided.

A major step toward achieving a level playing field was made in June 2004 at a meeting of the OECD Global Forum on Taxation hosted by German Finance Minister Hans Eichel. Representatives of 42 governments, both OECD and non-OECD, agreed to carry out a comprehensive factual survey of the transparency and exchange of information policies and practices of OECD countries and non-OECD participants. In addition, other significant financial centres have been invited to participate in the Global Forum's work so that illicit financial activities do not simply shift from countries that are transparent and exchange information to those that do not. ■



(Left to right)
Head of the OECD Tax Treaty, Transfer Pricing and Financial Transactions Division, John Neighbour; Viktoria Pashkova and Natalia Yu Tarbushkina of the Russian Federation tax service; and Deputy Chairman of the Budget and Taxation Committee, State Duma, Sergey I. Shtogrin, at the Study Tour for the Russian EU Tax Reform Project II at the OECD on 20 October 2004.

Governance

Public governance

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Good, effective public governance helps to strengthen democracy, promote economic prosperity and social cohesion, and deepen confidence in government. OECD work on public governance helps members strengthen and maintain accountable, open governance systems in a rapidly changing economic and social environment.

The OECD also shares experience and knowledge on public governance with other countries and regions including China, Russia, Africa and the Middle East.

A priority for 2005 and 2006 will be to develop comparative indicators on good governance and efficient public services.

Public sector modernisation

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Governments need to adapt to changing circumstances without losing public confidence in their institutions. The OECD is examining how governments have used different levers to change their public administrations during the past 20 years of reform and modernisation. These include transforming accountability, control, and performance structures, changing public sector employment (see box page 75) and introducing more commercial or market-type instruments into the public sector.

These reforms have brought positive change in terms of greater openness, better tools for exercising control, and gains in efficiency and quality through the selective application of market-type mechanisms. However, countries continue to face the challenges of balancing different objectives, for example



(Left to right)
Swiss Minister of Economic Affairs, Joseph Deiss and Swedish Minister for International Economic Affairs and Financial Markets, Gunnar Lund at the OECD annual ministerial meeting in May 2004.

openness versus national security and delegation versus accountability. A full report on the results of the review will be completed in 2005, and work will continue in the various areas.

Trust in government

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Governments need to be open, accountable and accessible if they are to win and maintain trust. Having made substantial efforts to promote integrity and prevent corruption, there is now a growing demand for OECD countries to provide evidence that these efforts have had a positive impact. OECD reviews of recent assessment initiatives in Australia, Finland, France and Korea were used to develop a framework to help policy makers and managers design and organise policy evaluations. This framework will be used in a review of how countries have implemented the 2003 OECD Recommendation on Guidelines for Managing Conflict of Interest in the Public Service, due to be completed in 2006.

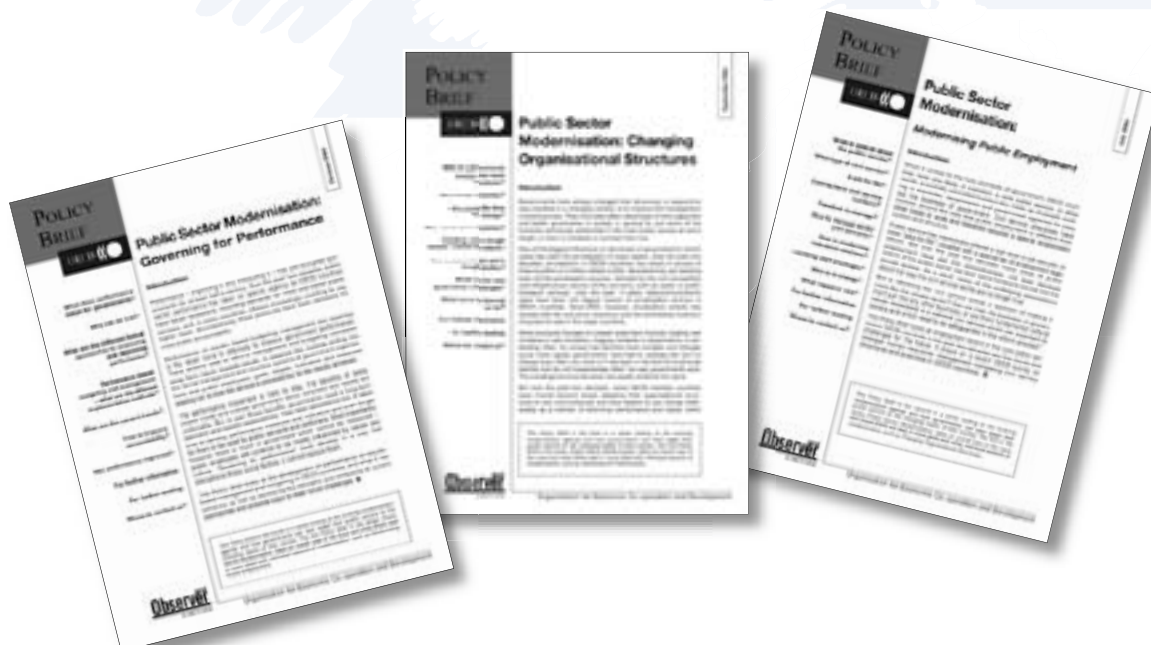
In 2004, the OECD also completed a toolkit of practical measures for managing conflict of interest in the public service.

Managing budgets

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The budget is perhaps the most important government document. It reconciles tax revenues with government priorities and acts as a signal to financial markets about a country's commitment to fiscal discipline. It is also a chief strategic tool for managing government change and reallocating resources.

The OECD is creating common international principles and standards for national budgeting and financial management to help countries strengthen their budget process and learn lessons from their peers. In 2004, the OECD published studies on mechanisms for reallocating funds, applying accrual



accounting standards in the budgeting and reporting process, and modern control procedures. It also completed reviews of the budget systems in Denmark, Chile, Romania and Slovenia. A new regional network of senior budget officials in Central, Eastern and South East Europe was created, alongside existing regional networks in Asia and Latin America.

In 2005, further country budget reviews and publications will be produced, including comparative studies on national budget laws, accountability and control, and performance budgeting as well as an update of the OECD/World Bank Budgeting Database.

E-government

The advent of the Internet has consequences for government far beyond a new way of delivering public services. In 2004, the OECD completed an

DID YOU KNOW...

that more than 60% of civil servants in OECD countries are over 40?

www.oecd.org/gov/egov
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Modernising public employment

Over the past two decades, economic, budget and labour market pressures have pushed OECD member countries to reshape the structure of their public service and the management of their civil servants. While in most countries, rules applying to all civil servants were once set centrally, leaving little room to manage staff individually, this situation has changed considerably. In the past ten years, many OECD countries have shifted civil service employment towards greater use of contract-based employment and flexibility.

A 2004 OECD report on trends in senior civil service employment indicates that strategies for staff management have become more employee-specific with respect to contracts, performance management and pay. Furthermore, there is an increased devolution of human resources management responsibilities to individual ministries and line managers.

Although these changes add to management flexibility in the civil service, they can have negative effects on collective values and ethical behaviour. New management approaches are emerging which can reduce these adverse effects by, for example, establishing collective performance pay systems and new approaches to training and management of senior civil servants.

An OECD report on performance-related pay for government employees shows that pay increases tied to work performance are an appealing idea, but difficult to implement. One reason is that performance-related pay (PRP) increases are a second-rank incentive for most government employees, especially those in non-managerial positions. But introducing PRP can create a chance for wider organisational change and for setting new benchmarks for how much effort people are expected to put into their jobs.

In the next two years, as part of its overall project of developing data and indicators on good governance and efficient public services, the OECD will undertake a comprehensive study on the state of civil services in OECD member countries.

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DID YOU KNOW...

that two-thirds of OECD countries have introduced some form of performance-related pay in their civil service?

in-depth analysis of how e-government can support more efficient, effective and user-focused government (see box below). A major conclusion was that e-government should be integrated into an organisation's overall strategy in order to help reduce costs and improve services. The results will be published as *E-government for Better Government* in 2005.

The OECD also produced in 2004 a checklist to help governments analyse the costs and benefits of e-government. In 2005, the OECD will look at how information and communication technology tools can help transform

DID YOU KNOW...
that two-thirds of OECD member countries report on government performance to the public?

Making e-government count

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Governments are increasingly aware that e-government can transform public administration by making it more efficient, effective and user-focused. However, governments have also learned from experience that applying information and communication technologies (ICT) does not in itself bring about better government. OECD work has shown that new pressures to demonstrate returns on investment are requiring that governments base their ICT investment and organisational decisions on evidence of value – to government, citizens and business.

E-government is no longer an option, but rather an imperative for governments that want to reform the public sector. The focus is now on how governments can make the most of e-government as a tool for change. Business cases (cost/benefit analyses) and user research and feedback are two tools that have allowed governments to better select and adjust e-government objectives and hold e-government initiatives on course and accountable. Other items in the e-government toolbox include: identifying common processes inside government that can be shared more efficiently or delivered by a single IT solution; adopting service delivery strategies that use ICT resources in support of all services whether delivered over the Internet, by telephone, in person or through other channels; and structuring e-government initiatives in support of sharing knowledge, best practice and common solutions.

These tools promote government-wide improvements in productivity and performance. They also promote new cross-linkages within government that make it more responsive to citizen and business needs. Current data show that the largest benefits, for both users of government and government itself, come from transformation initiatives (i.e. initiatives that alter information flows and/or structures within government to make it more user-focused and efficient), or those which change the way in which government does business in order to increase efficiency and effectiveness.

E-government can also provide broader benefits to society as a whole, for example by increasing trust in government. These benefits are among the most important to long-term government legitimacy, but are also the hardest to measure and often excluded from e-government evaluations.

DID YOU KNOW...
that you do not need a computer to use e-government? Digital television, mobile phones and phone-based voice menus are just a few ways that users can access electronic services.

the public sector, by making it easier to share and use public data, while maintaining public trust and accountability.

E-government peer reviews of Mexico and Norway were carried out in 2004 and a review of Denmark is due to be completed in 2005. These reviews provide valuable guidance for all OECD member countries implementing e-government.

Regulatory reform

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Regulatory reform enables governments to design and implement policies for economic growth and social well-being by creating a level playing field for economic activity and reducing red tape. Peer reviews of France and Germany's performance in implementing the OECD's 1995 Guidelines on Regulatory Quality and the 1997 Principles of Regulatory Reform were completed in 2004, bringing to 20 the number of countries reviewed since 1998. A peer review of Switzerland will be carried out in 2005.

The OECD is also looking at whether countries already reviewed have carried out the recommended actions. Reports monitoring progress in Japan and Mexico were published in 2004, and found that both countries have made significant progress in making regulations more efficient and effective. In 2005, the OECD will monitor progress with reforms in Korea.

Territorial development

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OECD work on territorial development helps governments to develop regional policies around three pillars: regional competitiveness, multilevel governance, and territorial statistics and indicators.

In 2004, the OECD completed a national review of regional development policy in Japan, and began reviews of Finland and France. It also completed studies of Mexico City and Busan (Korea), highlighting policies to improve the competitiveness of major urban regions. Strategies for rural regions emphasising new forms of governance and innovative approaches to public service delivery were explored during a major conference in early 2004 in Washington DC, and through case studies that included Tuscany (Italy) and Extremadura and the Basque Country (Spain). A conference, organised by the OECD with the EU, launched new work on regional innovation policies. *OECD Regions at a Glance* and *Competitive Regions: Strategies and Governance*, to be published in 2005, will bring together the results to date of the OECD's work in these areas. ■

DID YOU KNOW...
that over 80 billion euros are spent annually on ICT in government in the EU and the USA, but very few countries have developed business cases to justify these types of investments?

Private sector governance

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www.oecd.org/corruption
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Corporate integrity is a vital component of economic stability. Companies rely on a strong legal, regulatory and institutional environment in which they can compete fairly and function properly. OECD work on private sector governance encompasses issues such as corporate governance, fighting bribery and corruption, and competition law and policy.

Enhancing corporate governance

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Good corporate governance is essential for the development of a competitive private sector that is able to attract and retain the capital needed for investment. The OECD finalised a wide-ranging review of the OECD Principles of Corporate Governance in 2004. The year-long process involved extensive consultations with stakeholders from OECD and non-OECD countries. This culminated in an endorsement in May 2004 by ministers, who encouraged wide dissemination and active use of the Principles, and a sustained policy dialogue among governments and other concerned parties.

The future work of the OECD will thus meet four key objectives: to support wide dissemination and active use of the Principles through sustained policy dialogue among OECD as well as non-OECD countries; to increase the understanding and use of effective implementation policies to support better corporate governance; to provide a forum for sharing and disseminating policy, analytical and empirical work; and to advance understanding of the links between corporate governance, economic growth and financial stability.

This focus on dialogue and implementation is set to become increasingly important during 2005. The Regional Roundtables on Corporate Governance in Asia, Eurasia, Latin America, Russia and Southeast Europe have already shifted their focus to implementing and enforcing priorities and recommendations



(Left to right)
 Nigerian Finance Minister,
 Ngozi Okonjo-Iweala; Madagascar's
 Director General of Public Expenditure,
 Alexandre Randrianasolo; and
 OECD Deputy Secretary-General
 Kiyotaka Akasaka at the Development
 Partnership Forum, organised jointly
 by the OECD and Transparency
 International in December 2004.

Corporate governance and economic growth

Corporate governance is rapidly establishing itself as a key area of public policy. A main reason for this development is the close link between corporate governance, investment and economic growth. The importance of corporate governance for economic growth guided the revision of the OECD Principles of Corporate Governance completed in 2004 and will underpin policy discussions in 2005 in both the OECD area and in the Regional Corporate Governance Roundtables.

The corporate governance system is a set of rules and accepted business practices that helps investors and corporations interact in an informed and effective way. A good corporate governance system therefore facilitates the financing of viable business projects and makes it possible to turn ideas and entrepreneurial skills into a profitable enterprise. The quality of the corporate governance system is particularly important for the ability to mobilise risk capital, notably equity, which allows companies to engage in long-term and forward-looking undertakings such as research and development, product development, the opening up of new business lines and corporate re-structuring.

The quality of corporate governance influences not only the quantity of investment and the overall willingness to invest in equity. Equally important is that good corporate governance also improves the quality of investment. It contributes to a better allocation among different investment alternatives and it improves the oversight of the capital once it is invested in individual companies.

A few examples of the mechanisms at work illustrate how the quality of corporate governance concretely influences all three stages of the investment process. At the first stage, secure methods of ownership registration, equitable treatment of shareholders and effective means for legal redress are all examples of corporate governance provisions that promote confidence and facilitate the mobilisation of financial capital. At the second stage, reliable and transparent disclosure is essential for investors to make informed decisions about the allocation of their capital among alternative uses. At the third stage, the procedures for corporate decision-making, the distribution of rights and responsibilities between company organs, such as the board and the annual meeting, and the design of incentive schemes and effective lines of accountability, are all key corporate governance provisions that have to be in place to achieve effective monitoring.

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This survey examines the systemic issues at the forefront of the corporate governance debate and discusses how OECD countries have responded.

agreed through the Corporate Governance White Papers produced for each region. Outreach work will also address new topics such as governance of state-owned assets and non-listed companies. The dialogue with China will continue to focus on pressing policy issues, and a new regional initiative in the Middle East and North Africa (MENA) is also under way (see box page 98). Reflecting experience gained during the revision of the Corporate Governance Principles, the OECD will maintain an active dialogue with stakeholders.

A methodological framework that emphasises the relationships between various elements of corporate governance will be used to help share and disseminate experience between countries. This framework will allow a well-founded assessment of policy effectiveness and help avoid overly burdensome regulation.

Governance and state-owned enterprises

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Public authorities are calling for higher standards of corporate governance in the private sector and, indeed, backing this up with new legislation and codes. It is therefore incumbent on those same authorities to ensure that the public sector also applies high standards to managing state-owned assets.

But the need for reform in the state-owned enterprise sector is not only a matter of setting a good example. In many jurisdictions, the state-owned sector is large, if not dominant, so that poor corporate governance adversely affects growth by increasing the government budget deficit and/or bank lending, crowding out the private sector. Corporate governance of state-owned enterprises (SOEs) presents unique challenges, including the special relationships of companies with ministers or those politically responsible. Such situations can result in multiple and sometimes conflicting corporate objectives, ill-defined board responsibilities, opaque appointment procedures and a lack of effective competition. Although the OECD Principles of Corporate Governance cover many areas relevant to state-owned enterprises, additional guidelines were warranted.

In 2004, the OECD developed Guidelines for the Corporate Governance of State-owned Assets, taking the Corporate Governance Principles as a starting point. The Guidelines are based on a comparative report of experience in OECD and other countries. They have also benefited from consultations with interested parties, including state property agencies and control bodies, as well as present and former chief executive officers and chairmen of these state companies and members of state legislatures. The public was consulted via the Internet to ensure that a wide range of viewpoints were taken into account. The Guidelines are scheduled for approval in 2005 and will form the basis for an ongoing policy dialogue among OECD and non-OECD countries. They are particularly useful in highlighting decisions which need to be made in transition and emerging market economies and will form an important aspect of OECD dialogue with China.

DID YOU KNOW...
that state-owned enterprises represent more than 20% of stock market capitalisation in Italy, Finland, Greece and Norway?

Combating corruption

www.oecd.org/corruption
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Bribery of foreign public officials in international business transactions undermines economic development and distorts international competition. The OECD's Anti-Bribery Convention, ratified and implemented by all 30 OECD member countries and six non-OECD governments, aims to level the competitive playing field for all companies by making it a crime to bribe foreign public officials to win a contract.

The OECD, through its Working Group on Bribery, monitors compliance with the Convention by assessing national anti-bribery laws (Phase One), evaluating the legislation's effectiveness in combating foreign bribery (Phase Two), and recommending concrete action for improvement. Phase One examinations of all countries but one (Estonia) and Phase Two examinations of 15 countries, including the G7 countries, were completed by the beginning of 2005; the remainder are to be completed by 2007. The Country Reports and Recommendations of the Working Group are a powerful impetus for change and several countries have amended their legislation as a result. All reports are available on the Internet.

The OECD also aims to raise international anti-corruption standards through outreach activities with non-member countries in Asia Pacific; Latin America; Central, Eastern and Southern Europe; the Caucasus and Central Asia. Regional initiatives bring together government officials, international organisations, international financial institutions, civil society and business associations, providing a forum to share experiences, build networks to promote anti-corruption activities and develop best practices in fighting corruption.

Through its work on the Convention and its outreach activities, the OECD mobilises governments to improve their performance in fighting bribery and provides a platform where the international community can work together to combat corruption.



The 2004 edition takes into account developments since 1999 and includes several important amendments.

Fostering competition

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Competition is vital to ensure that markets can deliver goods and services efficiently. The degree of competition in an economy is a major contributor to overall economic performance and prosperity.

The OECD's work on competition, which brings together academic theory and its practical application in a regulatory and policy context, constitutes a valuable support for competition authorities' work. The non-adversarial OECD approach has yielded good practical results by achieving coherence in international antitrust enforcement and helping competition authorities to advocate pro-competitive reforms at all levels of government.

In 2004, the OECD intensified its efforts to fight cartels through its work on the Recommended Practices for Formal Information Exchange in International Cartel Investigations. Also, a new Recommendation on Merger Review, to be adopted in 2005, should help countries adopt more effective and efficient merger review procedures and practices.

DID YOU KNOW...
 that the break-up of monopolies in Japan resulted in a 13 trillion yen gain by the country's consumers?

The OECD's competition work in 2004 continued to focus on the strength of competition policy as a principle of reform. Best practice roundtable discussions in 2004 addressed a variety of key issues including competition and regulation in water supply and treatment, competition in agriculture, the health profession, intellectual property rights in biotechnology, market activities performed by public authorities and predatory foreclosure. The OECD also began discussions on how to evaluate the costs and benefits of "structural separation" – separating the competitive and non-competitive element of a business, often a utility or telecommunications operator – as part of a review of the Council's 2001 Recommendation on Structural Separation. During 2004, OECD work also drew lessons for competition from the implementation of past OECD recommendations and from recent developments in 12 countries. Special chapters on competition were included in a number of *Economic Surveys* of OECD countries. ■



(Left to right)
Mexican Finance Secretary,
Francisco Gil Díaz, and Japanese Senior
Vice-Minister for Financial Services
and Economic and Fiscal Policy,
Tatsuya Ito, at the OECD annual
ministerial meeting in May 2004.

Investment

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International investment brings growth and sustainable development when the right policies are pursued. International investment includes foreign direct investment, other capital movements and the operations of multinational enterprises.

A core mission of the OECD is to promote international investment for growth and sustainable development worldwide, by advancing investment policy reform and international co-operation.

Investment for development

www.oecd.org/daf/investment/development

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Work continues on the OECD Initiative on Investment for Development. The Initiative was launched in 2003 to support implementation of the Monterrey Consensus on the importance of more and better investment in non-OECD economies if the Millennium Development Goals are to be achieved.

OECD and non-OECD countries have agreed to develop a Policy Framework for Investment, intended as a non-prescriptive checklist of issues for consideration by governments engaged in domestic reform, regional co-operation or international dialogue aimed at creating an environment that attracts investors and enhances the benefits of investment to society. Trade and competition were identified as two key elements for the Framework during the OECD Global Forum on International Investment held in New Delhi in October 2004. This continuing process of country experience-sharing and stakeholder dialogue will be used to develop other elements in 2005.

The second project under the Initiative looks at how to enhance the role of official development assistance (ODA) in mobilising investment for development. Other topics discussed at the Global Forum included



(Left to right)

BIAC Secretary-General, Thomas R. Vant with Chairman and CEO of the Poongsan Corporation, Korea, Jin Roy Ryu and Mexican Foreign Affairs Secretary, Luis Ernesto Derbez Bautista, at the OECD annual ministerial meeting in May 2004.

using empirical indicators to analyse how far developing countries have a regulatory framework conducive to investment, and donor country experience with ODA and investment strategies.

The Initiative's third pillar uses OECD peer reviews as a capacity-building tool. A high-level investment policy review of the Russian Federation was held in June 2004 (see box below). The OECD-India Roundtable, held in conjunction with the Global Forum in New Delhi, explored opportunities and challenges facing India's investment policy and agreed on areas for

DID YOU KNOW...
that there are 2 300 bilateral investment treaties in operation worldwide?

Investment policy in Russia

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Despite a wealth of investment opportunities, the Russian Federation has attracted relatively little foreign direct investment (FDI) and has experienced large-scale capital flight. This phenomenon results from restrictions on foreign investment in certain sectors and important institutional factors which also affect domestic businesses. The OECD, together with a Russian delegation led by the Deputy Minister of Economic Development and Trade, and the First Deputy Chairman of the Central Bank, completed a review of the country's investment policy which was published in December 2004.

Russia has made improvements in its business environment over the past decade, adopting laws to better protect property and other investor rights, and establishing the institutions needed for a well-functioning market economy. Russia has also signed investment and double-taxation treaties with OECD and non-OECD countries.

The 2004 *Investment Policy Review of the Russian Federation* evaluates the progress made since the publication of a similar study in 2001. Important positive changes in policies that affect foreign investment include taxation, foreign exchange regulation, reporting standards, land law and customs procedures. At the same time, the Review offers policy options designed to improve the investment environment further. These include relaxing the remaining restrictions on FDI in financial services, energy and other sectors of the economy, continuing efforts to simplify and make administrative procedures more transparent, and ensuring compliance with federal laws and regulations at sub-federal government levels.

Areas for further co-operation include enhancing policy enforcement capacity using OECD implementation tools such as its Framework for Investment Policy Transparency and its Checklist for FDI Incentive Policy, and benefiting from OECD experience with the Code of Liberalisation of Capital Movements to develop measures that support orderly abolition of remaining capital controls.



DID YOU KNOW...
that Russian industries benefiting from high levels of FDI are among those with the highest productivity growth?

follow-up dialogue between India and OECD governments. A Middle East and North Africa (MENA) – OECD Initiative on Governance and Investment for Development was launched in November 2004 (see box page 98). Led by countries in the region and facilitated by the OECD, the investment pillar of the MENA-OECD initiative will help governments to design, implement and monitor investment policy transparency and openness. The Investment Compact, co-chaired by the OECD, Austria and Bulgaria, continues to advance structural policy reform in South-East Europe. Steps

DID YOU KNOW...

that, over the past ten years, the number of exceptions to national treatment of foreign investment has fallen by 17%?

Guidelines for Multinational Enterprises

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The OECD Guidelines for Multinational Enterprises are recommendations for conduct by international business in areas such as labour, environment, consumer protection and the fight against corruption. The Guidelines strengthen the basis of mutual confidence between companies and the communities within which they operate.

The recommendations are made to business by the 38 adhering governments and, although they are not binding, governments are committed to promoting their observance. They are backed by unique follow-up mechanisms, including a procedure which allows any interested party to ask an adhering country's National Contact Point to engage in dialogue with an individual company regarding observance of the Guidelines in specific business situations. A total of 80 specific instances have been brought to National Contact Points' attention since the 2000 Review of the Guidelines. The cases handled to date range from labour standards in Guatemala to resettlement operations by a Canadian mining company in the Zambian copper belt.

The 2004 *Annual Report on the OECD Guidelines for Multinational Enterprises* documents ongoing progress – the Guidelines are now one of the world's foremost corporate responsibility instruments. OECD ministers made prominent references to the Guidelines throughout 2004, as did United Nations Secretary-General Kofi Annan in a speech to the UN Security Council. Company, trade union and NGO use of the Guidelines continued to grow in 2004. Adhering countries have agreed to pursue their efforts to improve the effectiveness, transparency and timeliness of their procedures. They have also undertaken a project that will help multinational enterprises conduct business with integrity in weak governance zones, through the development of a risk management tool.

The 2004 OECD Roundtable on Corporate Responsibility reviewed tools and approaches available to help companies implement the environment chapter of the Guidelines. It also discussed the respective roles of business and government. The results were published as part of the 2004 annual report on the Guidelines.

**DID YOU KNOW...**

that 97 of the top 100 multinational enterprises are based in OECD countries?

taken by Romania to adhere to the OECD Declaration on International Investment and Multinational Enterprises are a clear indicator of the region's commitment to reform.

International investment agreements

International investment agreements reinforce domestic liberalisation and underpin legal security for investment. Recently, a new generation of bilateral and regional agreements has emerged, together with a growing body of jurisprudence. OECD analysis helps countries better understand the implications of such agreements and achieve better outcomes for governments and investors.

The OECD published three new reports in this area in 2004. "Indirect Expropriation and the Right to Regulate in International Investment Law" identifies the main criteria used by tribunals to articulate the difference between the two; "Fair and Equitable Treatment Standard in International Investment Law" clarifies the concept, based on jurisprudence and state practice, as treaty parties share the view that arbitral decision-making needs a context; and "Most-Favoured-Nation Treatment" deals with how treaty interpretation rules are applied in this area.

www.oecd.org/daf/investment/agreements
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Investment statistics

The OECD and the International Monetary Fund (IMF) have jointly embarked on a review of how to measure international investment activities. The first phase of the revision process will be making draft methodological recommendations to both organisations in 2005.

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Transparency and non-discrimination

The OECD is tasked with promoting liberalisation of the full range of capital movements among its members. The Codes of Liberalisation of Capital Movements and Current Invisible Operations constitute legally binding rules, stipulating progressive, non-discriminatory liberalisation of capital movements, the right of establishment and financial services and other current invisible transactions (such as services).

The OECD also uses the benchmarks embodied in the Declaration on International Investment and Multinational Enterprises, to encourage adhering countries to apply transparent and non-discriminatory treatment of investment. The Declaration is a political agreement among adhering countries for co-operation on a wide range of investment issues. The full list of Adhering Country Exceptions to National Treatment of foreign-controlled established enterprises has been updated and posted on the OECD Web site. In December 2004, Romania was invited to adhere to the OECD Declaration on International Investment and Multinational Enterprises, after a full examination of its foreign investment policies. A review of these policies was released in early 2005. ■

www.oecd.org/daf/investment/agreements
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Development of non-member economies

Development co-operation

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OECD donor countries account for more than 90% of total official development assistance (ODA) worldwide, amounting to a record USD 69 billion in 2003. Development co-operation work in 2004 focused on progress towards achieving the poverty reduction targets outlined in the international Millennium Development Goals (MDGs), as well as work on fragile and conflict-affected states.

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

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

Reducing poverty

www.oecd.org/dac/mdg
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All of the OECD's development work is linked to achieving the international community's Millennium Development Goals (MDGs) for reducing poverty. And 2005 is a particularly significant year as a UN summit in September will take stock of progress in the five years since the Millennium Declaration (see box page 89).



(Left to right)
Portuguese Institute for Development Aid Service Director, Ines Rosa and Polish Under-Secretary of State for Foreign Affairs, Jan Truszczyński at the DAC High-Level meeting held on 25-26 April 2004.

Making the most of aid

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Increasing the effectiveness of aid to developing countries is at the centre of the OECD's development activities for 2004 and 2005. During 2004, the DAC, together with multilateral organisations such as the World Bank and the United Nations, monitored how countries were implementing its good practices for aid effectiveness, culminating in a high-level meeting in Paris in early 2005 to discuss the results.

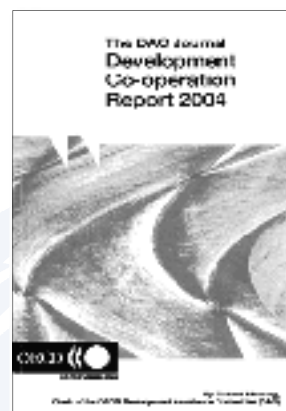
Heads of state, ministers and senior officials from 35 developing countries and 40 multilateral, regional and bilateral development institutions agreed that aid must be used much more effectively if the international community is to meet the MDG target of halving global poverty by 2015.

The meeting called on donors to sustain their efforts to increase ODA volume, but recognised that more aid alone will not be enough; the whole aid process must become more streamlined.

Participants agreed that while there have been significant improvements in aid delivery and management practices since a high-level forum on harmonising aid practices in Rome in 2003, much remains to be done if the desired development results are to be achieved.

They noted that making aid more effective is not a simple process, nor is it entirely in the hands of donors. Experience clearly shows that developing countries' own policies and capacities are the key driver of aid effectiveness. The Paris forum highlighted the critical role that capacity development plays in this process and provided guidance on how donors and partners can work better together to strengthen country systems and institutions.

The Paris forum agreed a compact set of objectives for change for both donors and partners and challenged the development community to do more to implement the aid effectiveness agenda set at the Rome meeting.



This book focuses on progress in achieving the Millennium Development Goals as well as how to integrate security issues into sustainable development.

Assessing aid efforts

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The DAC carries out regular reviews of each member country's development co-operation system, as part of its work to help them improve their efforts in all areas of development assistance. DAC Peer Reviews in 2004 covered France, Italy, Austria, Norway and Australia. Peer reviews of New Zealand, Sweden, Switzerland, Belgium and Germany are planned for 2005. All peer reviews include a chapter on policy coherence for development. The DAC also carries out Joint Country Reviews, involving scrutiny of several members' activities in the same developing country. One such review in 2004 looked at how the themes of partnership and local ownership were being given concrete form by Nicaragua and its donor country partners.

Donor country policies in areas like agriculture, trade, investment and migration have a profound impact on developing countries, yet they often work at cross-purposes with development policies. The OECD continued its work in 2004 on ways to avoid such conflicts and ensure that government policies are mutually supportive of development goals. This work was

synthesised in a major workshop on institutional approaches to policy coherence in Paris in May 2004.

In 2004, the 30 bilateral and multilateral development agencies in the DAC Network on Development Evaluation started evaluating the effectiveness of budget support as an aid strategy, and published a study on “Lessons Learned in Donor Support to Decentralisation and Local Governance”.

Progress towards the Millennium Development Goals

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The year 2005 is a landmark for the development community, as heads of state and government prepare to meet at a UN summit in September to take stock of progress in the five years since they issued the Millennium Declaration on reducing poverty and to renew their commitment and efforts to meet the Millennium Development Goals for 2015.

There are eight Millennium Development Goals: 1) eradicate extreme poverty and hunger; 2) achieve universal primary education; 3) promote gender equality and empower women; 4) reduce child mortality; 5) improve maternal health; 6) combat HIV/AIDS, malaria and other diseases; 7) ensure environmental sustainability; 8) develop a global partnership for development.

The number of people in extreme poverty – those surviving on less than a dollar a day – has fallen over the past 15 years. More children are in school and the gap between boys and girls’ attendance has narrowed. Infant and child mortality rates continue to fall, while access to clean water and sanitation continues to rise. Yet some 1.1 billion people still live on less than a dollar a day, more than 100 million children are not in primary school and 10 million children under five die of preventable causes each year.

At the regional level, East Asia is on track to achieve most of the goals. In South Asia, where nearly 40% of the world’s poorest people live, significant improvements are expected by 2015. But the Middle East and North Africa, along with Latin America and the Caribbean, need to accelerate progress. Eastern Europe and Central Asia appear to be recovering from their downturn in the 1990s. Sub-Saharan Africa is the region with the weakest prospects, compounded by high levels of disease, notably HIV/AIDS.

The UN Summit offers both developed and developing countries the chance to accelerate and broaden the progress of the last few years, so that many more countries can achieve the MDGs by 2015 than on present trends. OECD countries, which account for more than 90% of world official development assistance, worked in 2004 to improve aid effectiveness and prepare for this renewed effort.

DID YOU KNOW...
that malaria kills around 3 000 children every day in Africa, most of them under 5?

Role of the private sector

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Economic growth is a key factor in reducing poverty in developing countries, but the private sector, as well as agriculture and infrastructure, are vital if it is to be achieved. Sustainable, more rapid growth is not feasible without a dynamic private sector that helps integrate poor men and women into society as consumers, workers, farmers and entrepreneurs.

“Accelerating Pro-Poor Growth through Support for Private Sector Development: An Analytical Framework”, published in 2004, examined how growth that helps the poor, essential for realising the MDGs, can be accelerated through support for private sector development.

OECD donors are working to promote growth by encouraging private sector and infrastructure development through the Network on Poverty Reduction (POVNET). The OECD is also contributing to growth through its work on trade capacity-building; synergies between official development assistance (ODA) and investment; and the role of Information and Communication Technologies (ICT) for development.

Adapting to natural disasters

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Natural disasters such as droughts, earthquake, epidemics, floods or windstorms pose a growing threat to developing economies, both in terms of their frequency and of their physical effects. In addition to immediate death and injury, they cause long-lasting damage, as buildings, homes and infrastructure are destroyed and scarce resources diverted to coping with reconstruction.

In 2004, the OECD examined what influences a country’s “adaptive capacity” to such natural disasters – its vulnerability before disaster strikes and its resilience after the fact. Unfavourable economic and social conditions such as irregular urban settlements and weak regulatory practices, including poor enforcement of building standards can render a society more vulnerable and less resilient to any given shock.

Governments, international agencies and the private sector can work together to reduce vulnerability and increase resilience by increasing the human capital and physical assets of the poor, by monitoring and enforcing building codes and standards, by implementing precautionary measures that lower the cost of relief such as social safety nets or improved communications, and by exploring ways to create innovative financial instruments to pool disaster risk and to provide insurance against it.

Preventing conflict

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Conflict prevention is central to poverty reduction and sustainable development. The prevalence of violent conflict remains a major obstacle to sustainable development and to the realisation of the MDGs. The OECD is helping the international community to work together to ensure that violent conflict is more effectively prevented as well as to react more effectively to the outbreak of violence (see box page 92).

Helping fragile states

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Around one third of people living in absolute poverty around the world are in states judged as “fragile”, where the conditions for good practice aid partnerships simply do not exist. If the MDGs are to be achieved, the donor community must improve its effectiveness in these states where aid partnerships are particularly difficult.

During 2004, the OECD’s Learning and Advisory Process on Difficult Partnerships (LAP) worked on how to improve co-ordination between donors in these challenging environments where the diverse groups involved can include donors, humanitarian agencies and the military.

At a meeting in London in early 2005, the co-sponsors of the LAP, who include representatives of the UN Development Programme, the World Bank, European Commission and the DAC agreed to develop draft Principles of Good International Engagement in Fragile states to help prevent these states from becoming marginalised from the benefits of global development and poverty reduction.

In 2005, the LAP will work to test the draft Principles in a number of countries. In addition to its work on service delivery, the LAP will also work to improve the transparency of aid flows to fragile states.

DID YOU KNOW...
that having a fragile state as a neighbour reduces GDP by an estimated 1.6%?

OECD Development Centre

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

Work in 2004 focused on enabling developing countries to participate in the world economy on the best possible terms and with the greatest positive impact on the well-being of their populations. Work on Africa included publication of the third *African Economic Outlook* (see box page 97). On wider development themes, the Centre published a study entitled “Overcoming Barriers to Competitiveness” which focused on manufacturing productivity as a central issue for growth which rests on five key elements in the economy: infrastructure, capital, trade, education and aggregate efficiency.

Conflict prevention, peace building and security sector reform

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The prevalence of violent conflict remains a major obstacle to sustainable development and to the realisation of the Millennium Development Goals.

In the DAC, OECD governments continue to share knowledge, experience and good practice in order to improve the effectiveness of aid and the coherence of member policies in fragile, difficult, and/or conflict-affected countries. One priority is to increase awareness of conflict-related issues across the development, foreign affairs, defence and trade spheres, and in the private as well as the public sectors. There is a substantial need for more in-depth analysis of conflict, taking into account the historical context and the political, economic and social factors that make an area, country or sub-region prone to conflict as well as those that subsequently fuel, finance and prolong violence. The overall emphasis is on coherent, co-ordinated and informed engagement over the long term that helps to prevent the outbreak of conflict, and to increase the ability of societies to deal with tensions in a non-violent manner.

The recognition that development and security are inextricably linked is enabling partner countries to view security as a public policy and governance issue, and to invite greater public scrutiny of security policy. DAC guidance on Security System Reform (SSR), endorsed by ministers in 2004, underlines the positive role that the integrated reform of a country's security system can play in stabilising fragile, conflict-prone or conflict-affected states. SSR promotes an accountable and efficient security system, operating under civilian control within a democratic context, to create a stable enabling environment for sustainable development.

DAC guidance aims to ensure that SSR includes, but extends well beyond, the narrower focus of more traditional security assistance on defence, intelligence and policing. The security system includes the armed forces, the police, intelligence services, and judicial and penal institutions. It also comprises the civil authorities responsible for control and oversight (e.g. parliament, the executive, and the defence ministry).

In 2005-2006, OECD donor countries making up the Development Assistance Committee (DAC), through the Network on Conflict, Peace and Development Co-operation, will organise workshops to help build national and regional capacity to implement SSR, as well as to inform future DAC guidance in this area. It will also explore how donors can help support partner country-led reform.



Sahel and West Africa Club

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The Sahel and West Africa Club (SWAC) covers 17 countries with an area of 7.8 million square kilometres, 2.5 times the size of the European Union. West Africa has an estimated 290 million inhabitants, almost equal to that of the population of the United States.

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

However, over the last two decades the region has undergone significant social, cultural, institutional and political changes. Much of the SWAC's work in 2004 was devoted to supporting this profound transformation process, focusing on identifying and promoting the dynamics, as well as the drivers, of change. Particular emphasis was put on competitiveness in agriculture, the process of regional integration and conflict dynamics, peace and security.

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



(Left to right)
Netherlands Minister for Development Co-operation, Agnes Van Ardenne; Swedish State Secretary for Foreign Affairs, Annika Söder; Belgian Minister for Development Co-operation, Marc Verwilghen; Luxembourg's Minister for Co-operation, Humanitarian Action and Defense, and Environment, Charles Goerens, at the DAC High-Level meeting held on 25-26 April 2004.

Outreach

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The OECD's work with economies outside its membership encompasses policies to enhance the investment climate, improve public and corporate governance, build stronger national institutions for trade policy, and more generally to encourage the domestic reforms required in all economies to reap the benefits of globalisation.

Throughout 2003 and 2004, the OECD undertook a strategic review of its relations with non-OECD economies. The Council welcomed the resulting report entitled a *Strategy on Enlargement and Outreach* which sets out a coherent, co-ordinated and proactive approach to work with countries and economies outside OECD membership. OECD committees are now developing their own outreach strategies and taking a pro-active approach to engage relevant non-OECD economies in their work, including as observers or full participants.

Global Forums

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The OECD **Global Forums** provide a framework for dialogue on global issues that cannot be resolved by a single country or region: sustainable development; knowledge economy (biotechnology and e-commerce); governance; trade; international investment; international taxation; agriculture; and competition. A ninth Global Forum, on education, was established in early 2005.

In 2004, the **Global Forum on Sustainable Development** focused on economic aspects of government programmes for promoting compliance with national requirements.



(Left to right)
Hong Kong, China's Secretary for Commerce, Industry and Technology, John Tsang and Guyana's Director-General, Caribbean Regional Negotiating Machinery (RNM), Richard L. Bernal, at the OECD annual ministerial meeting in May 2004.

The **Global Forum on the Knowledge-Based Economy** in partnership with other international organisations began work on an international system to monitor the development of the information society.

The **Global Forum on Governance** promoted improved corporate governance, market integrity and sound business practices worldwide, using the OECD Principles of Corporate Governance as a benchmark for reform.

Improving governance in China

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The OECD increased co-operation with China in a number of areas in 2004. Major policy reviews or follow-up are under way in education, agriculture, environment, economic policy and investment, in addition to regular activities in almost all the fields of competence of the OECD.

But governance took centre stage with the completion of a major OECD report, discussed with the Chinese authorities in 2005. The report identified four critical challenges for the Chinese leadership if it is to ensure sustainable development and social cohesion: improving the framework for policy making; redefining the role of the state; modernising key government functions and moving ahead with regulatory reform.

China has improved its framework for policy making as an increasing reliance on market-based mechanisms has transformed its economy and led to the rapid development of some regions, particularly in coastal areas. Yet there is often a lack of coherence between central and local policies and a lack of appropriate involvement of the various stakeholders in the policy-making process.

Reforms to increase the role of market forces in the economy also have a significant impact on the role of the State. It now appears necessary to review how China manages interactions between the State and the private sector and how it organises public administration. The current allocation of public expenditure appears out of line with China's development needs. China spends too little on key social services such as education, health and science and technology, but too much on public administration and capital.

China has undertaken a number of measures to modernise key government functions in the past two decades, including major reforms which have improved the tax system and made the civil service more professional. Further reforms in the past five years have created the foundations for a modern system of budget management. However, the continued modernisation of public administration in these three key areas still requires sustained efforts.

At national level, China has made very rapid progress in developing new regulatory frameworks, much in line with international standards. Yet in some sectors, the regulatory environment remains overly complex, multi-layered and vulnerable to corruption. Also, the huge size of the country exacerbates problems in implementing policies, calling for a profound reform of the mechanisms of policy enforcement at all levels.



This book explores the causes of China's growing economic disparities and outlines possible policy responses.

The governance Forum also hosted conferences on private pensions and catastrophic risk insurance. In the public governance area, more than 260 participants from 60 countries attended a conference on fighting corruption and promoting integrity in public procurement.

A meeting of the **Global Forum on Trade** in Bangkok, held in co-operation with the United Nations economic and social commission for Asia and the Pacific (UNESCAP) discussed the challenge of trade-related structural adjustment.

The **Global Forum on International Investment** held a meeting in India to examine the role of international co-operation in enhancing the business environment and maximising the benefits of investment in developing countries.

The ninth annual meeting of the **Global Forum on International Tax Issues** brought together 250 government decision makers to examine the application of tax treaties.

The **Global Forum on Agriculture** helps policy makers understand the effects of agricultural trade liberalisation on different groups within society and design policies to mitigate adverse effects.

The **Global Forum on Competition**, backed up by regional seminars and other initiatives, has become the most broadly-based global venue for discussing cross-border competition policy issues and achieving consensus on ways to support effective law enforcement against cartels worldwide.



(Left to right)
OECD Secretary-General
Donald J. Johnston and Estonian
Prime Minister Juhan Parts during
a visit to the OECD on 1 May 2004.

Regional and country programmes

www.oecd.org/ccnm/regional
ccnmcont@oecd.org

Work with non-OECD economies is organised in regional and country programmes to provide more targeted co-operation in three regions: Europe and Central Asia; Asia; and Latin America. There is a general programme for each region, as well as specific programmes for sub-regions and individual country programmes for three of the largest economies: Brazil, China (see box page 95) and Russia.

Relations with Africa intensified in 2004, through co-operation with the New Partnership for Africa's Development (see Africa box, page 97). In 2004, the OECD launched a new programme with countries in the Middle East and North Africa (see MENA – OECD box, page 98).

Europe and Central Asia

www.oecd.org/ccnm/transitioneconomies
ccnmcont@oecd.org

The work of the Baltic Regional Programme essentially reached fruition in 2004 with the accession of the Baltic countries to the EU, and the programme was phased out at the end of the year. This final year focused on anti-corruption, taxation, insurance and pensions, trade, social and labour policy, financial affairs and agriculture to ensure the sustainability of the results achieved over the course of the Programme. In **South Eastern Europe**, the OECD co-chairs the Investment Compact which aims to boost private sector investment in the region. It is also active in other initiatives for education reform, economic monitoring, promoting

trade, and the fight against bribery and corruption, in particular through the OECD-supported Anti-Corruption Network for Transition Economies.

Through the **Transition Economies Programme**, the OECD helps the transition economies in Europe, Caucasus and Central Asia (EECCA) to achieve objectives such as reform of urban water supply and sanitation; public environmental finance; and effective and efficient environmental policies.

Africa

www.oecd.org/development
ccnmcont@oecd.org

The OECD's relations with Africa have strengthened considerably since it launched a new process of dialogue with the region in 2002 through co-operation with the New Partnership for Africa's Development (NEPAD). The OECD has helped establish a consultative process to assess development progress in Africa based on commitments undertaken by both African and OECD member countries, and engages in policy dialogue centred on public and private governance, investment climate, competition law and policy, tax policies and private sector development. OECD experience with peer reviews has been shared with NEPAD to help in the design of the African Peer Review Mechanism.

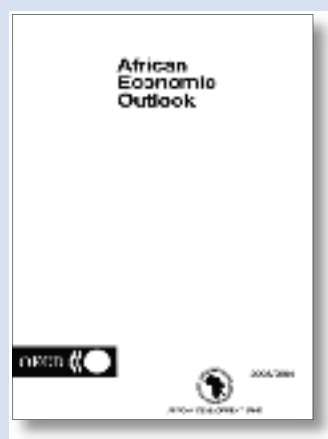
The OECD and the NEPAD secretariat launched an OECD/NEPAD Initiative for Investment in Africa in November 2003 aimed at supporting private sector development by creating an attractive environment for investors. In a joint initiative with the Pan-African Conference of Public Service Ministers, the OECD is contributing to governance reform. The OECD is also offering support through the South African Treasury to create a regional network of African Senior Budget Officials. Work is ongoing on agriculture policy reform and its contribution to growth and poverty reduction, through a joint initiative with the International Fund for Agricultural Development (IFAD), PARIS 21 and other partners.

In 2005, the OECD will begin a three-year co-operation programme to reduce harmful tax competition and double taxation. Work will also continue on competition and education policies.

A joint OECD-UN Economic Commission for Africa (UNECA) *Mutual Review of Development Effectiveness* was also launched in 2004, to be published every two years. The first issue will be published in the first half of 2005. It will monitor performance and identify good practice among African countries as regards political governance, economic governance and capacity-building and among OECD countries as regards ODA supply, aid quality including capacity-building, and policy coherence. The second report in 2007 will monitor progress in implementing its recommendations.

OECD co-operation with NEPAD also takes place at regional level, notably through the Sahel and West Africa Club (*see Development chapter, page 87*) and the Initiative on Central Africa (INICA) which was launched in 2004 to foster local employment initiatives and cross-boarder trade and contacts.

The annual *African Economic Outlook*, produced in co-operation with the African Development Bank, covers 22 African countries and provides a knowledge base to support the NEPAD peer review mechanism.



This annual joint publication with the African Development Bank reviews the recent economic situation and the short-term outlook for selected African countries.

In Central Asia, the OECD continued its co-operative programmes to help countries with their financial sector development, particularly capital markets and housing finance.

The **Sigma Programme**, a joint initiative of the OECD and the European Union launched in 1992, supports partner countries in their efforts to improve governance and management by assisting decision makers and administrations in building institutions and setting up legal frameworks and procedures. Sigma assesses reform progress and identifies priorities for further strengthening of institutions and other modernisation efforts in line with EU/OECD standards and good practice. In 2004, activities focused

MENA – OECD initiative

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In 2004, the Middle Eastern and North African countries (MENA) and the OECD launched a joint Initiative on Governance and Investment for Development. The three-year initiative, developed by the MENA states, aims to modernise government structures and processes in the MENA region as well as to improve the investment climate and policies in the region.

The project includes creating a regional network for policy dialogue, helping to identify and develop priority action, assessing progress and enhancing capacity to carry out policy reform in close partnership with other interested countries and organisations. The joint initiative is expected to make a substantive contribution to creating better conditions for economic growth and investment in the region, helping create jobs, encouraging private initiative, promoting efficient, transparent and accountable public sectors, and fostering regional co-operation.

The initiative consists of two closely co-ordinated programmes. The **Good Governance for Development programme**, implemented jointly with the United Nations Development Programme (UNDP), focuses on six themes, each under the responsibility of a Working Group: civil service and integrity; e-government, administrative simplification and regulatory reform; governance of public resources; public service delivery; role of the judiciary and enforcement; and civil society and the media. In February 2005, the prime minister of Jordan hosted a ministerial conference to launch this part of the initiative.

The **Investment programme** has five working groups, focusing on the following themes: transparent and open investment policies; encouraging investment promotion agencies and business associations to act as driving forces for economic reform; providing a tax framework for investment and assessing incentives; promoting policies for financial sector and enterprise development in support of economic diversification; and improving corporate governance practices. The five working groups held their first meetings in January and February 2005.

on six main areas: designing and implementing reform programmes; public service and the administrative framework; public expenditure management; financial control and external audit; public procurement; and policy-making and co-ordination capacities.

Russia

www.oecd.org/ccnm/russia
ccnmcont@oecd.org

The OECD in 2004 carried out a review of regulatory reform in Russia, including proposals for improving regulations in competition, trade and the energy and railways sectors. The OECD also intensified work on trade policy reform.

Several OECD studies on the implications of future Russian accession to the World Trade Organization (WTO) were presented at a regional trade forum in Almaty (Kazakhstan) in June.

The OECD published its fifth *Economic Survey of the Russian Federation* in 2004, with a special look at the competitiveness of Russian industry. A new *Investment Policy Review of the Russian Federation* evaluated progress since the 2001 study and proposed policy options to further improve the investment environment.

Following Russia's request to become an observer in the Working Group on Bribery and to accede to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, the OECD and the Russian authorities began to review the legal and institutional framework for combating corruption in the Russian Federation.

Asia

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In 2004, the OECD's Regional Centre for Competition opened in Seoul to support the development of sound competition law and policy throughout the region.

During the year, the OECD also strengthened its links with India and in November 2004, Donald J. Johnston became the first OECD Secretary-General to visit that country since 1996. Mr. Johnston met with top officials including Prime Minister Manmohan Singh and both sides expressed strong interest in further strengthening their co-operation.

Members of the Asian Development Bank/OECD Anti-Corruption Initiative for Asia-Pacific completed in 2004 the first comprehensive report on anti-corruption laws, policies and practices in 21 Asian and Pacific economies. The report will serve to evaluate progress and identify anti-corruption reform priorities.



(Left to right)
OECD Deputy Secretary-General
Richard Hecklinger and Thai Foreign
Minister Surakiart Sathirathai in June 2004.

Latin America

www.oecd.org/ccnm/latinamerica
frederic.langer@oecd.org

Countries from this region are among the most active observers or participants in OECD activities. Highlights of 2004 included the second Annual Meeting of the Latin American Competition Forum, a joint venture between the OECD and the Inter-American Development Bank (IADB), which featured a peer review of Peru's competition law and policy.

Another highlight was a *Review of Education Policy in Chile*. Other regional highlights include a conference on insurance regulation and supervision. Corporate governance roundtables, taxation seminars, activities on leading indicators with the Economic Commission for Latin America and the Caribbean (ECLAC), and seminars on competition law and policy are regular features of the programme.

Brazil

www.oecd.org/ccnm/brazil
frederic.langer@oecd.org

Work in 2004 included preparation of a second *Economic Survey of Brazil*, published in the first half of 2005. Joint work was also undertaken in such areas as competition policy, tax and financial market reform; agriculture policy and trade; and the investment regime, including the protection of foreign investors. Brazil hosted two conferences in 2004: a forum organised by the OECD and the IADB in May on implementing conflict of interest policies; and an OECD conference on implementing and enforcing the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. In 2005, Brazil will host a meeting of the Global Forum on International Investment and will organise a conference on fighting corruption and promoting integrity.



This second OECD Economic Survey of Brazil makes a detailed examination of macroeconomic policies, financial markets, the regulatory framework and social policies and expenditure.

Partnerships with other international organisations

The OECD further expanded its relationship with other international organisations during 2004. It has partnership agreements with the World Bank (to be revised in 2005), UN Conference on Trade and Development and the IADB. Close co-operation with the Asian Development Bank (ADB) has been established in a number of fields, such as anti-corruption, corporate governance and competition. A partnership agreement with the ADB was concluded in March 2005. Other partnership agreements may be concluded in 2005 and 2006. ■

Statistics

Statistics

www.oecd.org/statistics

stat.contact@oecd.org

Statistics underpin the whole fabric of the OECD's analytical work, so their accuracy and timeliness are vital to the Organisation's reputation. The OECD not only collects and disseminates data; it also works with member countries and other international organisations to develop international standards and to improve the quality and comparability of the statistics it receives.

The statistics compiled by the OECD range from annual and historical data to main economic indicators such as economic output, employment or inflation, for the 30 member countries and other selected economies. This information is available in a range of specialist statistical publications and databases. A comprehensive presentation of OECD statistical activities is contained in the "OECD Statistical Programme of Work".

Highlights of OECD work on statistics in 2004 included organising the first World Forum on Key Indicators in Palermo (Italy), in November (see box page 102).



"Statistics, Knowledge and Policy: OECD World Forum on Key Indicators", held in Teatro Massimo, Palermo on 10-13 November 2004.

Short-term indicators

www.oecd.org/statistics/indicators
stat.contact@oecd.org

The OECD publishes monthly or quarterly economic indicators for national accounts, production, composite leading indicators, retail and producer prices, finance, international trade and balance of payments. The indicators are available on line, on CD-ROM and in print. The OECD's principal

Statistics, knowledge and policy

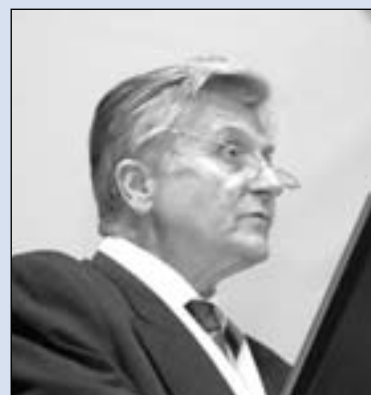
www.oecd.org/oecdworldforum
oecdworldforum@oecd.org

Comprehensive, trustworthy and comprehensible information are essential for productive debate and decisions in today's rapidly changing, increasingly interdependent world. And while there are numerous efforts at national level to ensure that economic, social and environmental indicator systems keep pace, there is no co-ordinated worldwide effort to study the development and implications of these large-scale public information systems. To help fill this gap, the OECD decided to organise the first World Forum on key indicators, "Statistics, Knowledge and Policy" to promote research- and information-sharing among countries on developing and comparing key indicators.

The Forum was held in Palermo (Italy) in November 2004 and was sponsored by the Italian government and several private companies. More than 540 people from 43 countries attended the Forum, and several thousand more were able to follow the plenary sessions through a live webcast. Participants included policy makers, statisticians, academics, representatives of civil society and the media. Some 150 speakers took part, including European Central Bank President Jean-Claude Trichet and OECD Secretary-General Donald J. Johnston.

Participants agreed that how countries develop and present statistics, and how comparable they are with other countries, are key issues for modern democracies. High-quality, understandable statistics are all the more necessary given the demand for transparent and accountable public policy, and the need to make it comprehensible to the public and to the media so that they can contribute to developing a common knowledge base. But it does not stop there; societies must use these statistics, among other things, to develop shared knowledge and to build decision-making processes based on reliable statistical evidence.

The Forum also showed that there was a strong need for a catalyst to allow national constituencies to learn from other countries' experiences, particularly as many good practices are already available in individual OECD countries. Delegates asked the OECD to organise a second Forum two or three years from now and, in the meanwhile, to set up ways for interested parties to exchange information and ideas on key indicators, through electronic discussion groups, specialised workshops, etc. Possible follow-up initiatives will be discussed at the June 2005 meeting of the OECD Committee on Statistics.



European Central Bank President,
Jean-Claude Trichet, at the Statistics
Forum in Palermo.

short-term indicator database is the monthly *Main Economic Indicators* (MEI), which includes statistical series for member countries and indicators for other economies such as Brazil, China, India, Indonesia, Russia and South Africa. Figures for quarterly gross domestic product (GDP), composite leading indicators, standardised unemployment rates, consumer prices and international trade are released monthly. Several projects were completed during 2004 to improve the quality of statistics in the MEI database and to maximise the length of time series.

The OECD is actively involved in the development of international guidelines and recommendations in several areas of short-term economic statistics. Much of this work is conducted under the aegis of the OECD's Short-term Economic Statistics Expert Group (STESEG) and includes initial work on the preparation of Handbooks for the compilation of an index of services production, and on data and metadata presentation and reporting. During 2004, a Web site was created outlining recommended practices to improve the timeliness of short-term statistics (see www.oecd.org/statistics/indicators).

The OECD has also been actively involved with the European Commission in developing international standards for business and consumer opinion surveys. A Web site was also developed which provides a hub for existing international standards for opinion surveys, links to data presented in a common format and current projects to improve the quality of these statistics (see www.oecd.org/statistics/cli-ts).

National accounts and economic statistics

The OECD is one of the main collectors and disseminators of detailed national accounts data for international comparison. In 2004, it added three new national accounts publications: a unique set of data on general government accounts, including detailed tax revenues and two volumes that cover all the details of financial accounts. These financial data are supplemented by more specialised databases covering areas such as institutional investors, central government debt, bank profitability and external debt of developing and transition countries.

The OECD is also a key player in international trade statistics, including services. It is the official source worldwide for detailed merchandise trade data of OECD countries and in 2004 it developed, together with the UN, a common world trade database platform. Yearly meetings of trade experts, as well as inter-agency task forces for commodity trade and trade in services, help to advance methodological research and to foster co-operation. During 2004, the OECD in co-operation with Eurostat developed a database for trade in services by type of service and partner country. The OECD also started to co-ordinate activities on services statistics among international organisations.

OECD Structural Business Statistics were reviewed and extended in 2004 following the successful implementation of direct data sourcing from Eurostat for EU countries. A ministerial meeting on small and medium enterprises (SMEs) in Istanbul in June (see box on *Fostering entrepreneurship*, page 32) called

DID YOU KNOW...

that more than 5 million people have unrestricted access to OECD statistical databases via SourceOECD?

www.oecd.org/std/national-accounts
stat.contact@oecd.org



This is the first edition of a new statistical annual, with more than 100 indicators covering a wide range of areas including economy, agriculture, education, energy, health and quality of life.

for better statistical measurement of SMEs, resulting in the creation of a virtual discussion forum to implement this recommendation.

The OECD continues to play a vital role in providing leadership in organising international meetings on agricultural statistical issues, such as MEXSAI in Cancún in November 2004.

Outreach activities

www.oecd.org/std/nm-countries
stat.contact@oecd.org

The OECD works with other economies to enhance the production of reliable, internationally comparable statistics. Increasingly, work has focused on large non-member countries, particularly Brazil, China, India, Indonesia, the Russian Federation and South Africa. Work in 2004 to assess and improve the quality of statistics, which is key to informed decision making and good governance, focused on forming quality frameworks, measuring the non-observed economy, GDP revision analysis and the overall quality of national accounts.

A simplified version of the OECD system of business tendency surveys has been successfully exported to China and several Latin American countries. In 2004, work started to develop composite leading indicators for Brazil, China, India, Indonesia, the Russian Federation and South Africa.

Purchasing power parities are currency converters that make it possible to make valid comparisons of GDP and per capita income across countries. The Eurostat-OECD Purchasing Power Parities (PPP) programme covers a number of non-member economies, including the Russian Federation. Also, in co-operation with the European Commission, PPP are developed for the Western Balkan region. In 2004, the OECD was actively involved in a project led by the World Bank to develop PPP on a worldwide level.

DID YOU KNOW...
that, with approximately 73 000 hits per month, the Statistics Portal is the most accessed entry page of the OECD Web site?

Reform of statistics information system

www.oecd.org/statistics/qualityframework
stat.contact@oecd.org

Reform of the OECD statistical information system reached a crucial stage in 2004 as key elements of the new system were implemented. These include a new organisation-wide data storage warehouse as well as systems for processing and comparing data and metadata. Principles for enhancing metadata quality have been adopted and are being implemented. A number of new publications were produced using the new data warehouse and processing systems, and a new user-friendly tool was also introduced to make the data easier to access. ■

— Communications

Public affairs and communications

www.oecd.org

Effective communication is a key element in the OECD's ability to promote intergovernmental co-operation and explain its activities to a broad range of audiences, from policy makers to business representatives, academia, organised labour, the media and the general public.

During 2004, the OECD reviewed its communications activities and adopted a new communications strategy to ensure that its key messages are reaching the full range of audiences using modern tools such as its Web site and online services, high-quality publications, tailored services for the media and public events such as the annual OECD Forum and meetings with parliamentarians, business and labour representatives and other civil society organisations.

Web site

www.oecd.org
webmaster@oecd.org

The OECD's Web site is of vital importance in getting the OECD's message across to a wide audience, as it is now the primary point of contact with the Organisation for most people around the world. In 2004, there were approximately 10.5 million visits to the site, an increase of about 50% over 2003. Having the information is not enough; it needs to be presented in a way that makes it easy for people to find the item that they want. A highlight of Web development in 2004 was the creation of country Web sites, launched in early 2005 (*see box page 106*).

Publishing

www.oecd.org/publishing
oecdpublishing@oecd.org

OECD publications are a prime vehicle for transmitting the OECD's intellectual output to the outside world. OECD statistics and analysis give



An OECD press conference.

government and business policy makers vital information for making decisions, and they give researchers and academics the fuel they need for their intellectual activities.

OECD Publishing reached two milestones in 2004. More than half of all dissemination is now electronic: 52% in 2004 *versus* 42% in 2003. And dissemination through commercial channels has now reached over 500 000 items (both electronic and print).

In 2004, a new version of OECD's award-winning online service, SourceOECD, was launched featuring full-text searching. Around 500 of the world's top universities make the full range of OECD statistics and publications available on line to all their students and faculty, and over 4 000 other institutions make selected OECD content available to their students and faculty or employees. By the end of 2004, SourceOECD was being consulted 8 000-10 000 times daily.

Country Web sites

www.oecd.org/infobycountry
countrywebmaster@oecd.org

Request for country information has always been very high among visitors to www.oecd.org. In response to this demand, the OECD redesigned its country Web sites in 2004 and in early 2005 launched the new sites. Each country now has its own Web site where visitors can find the most recent and important work on a specific country in a single click of the mouse, as homepages feature the latest publications, key statistics and analyses. For users whose interests focus on a specific country, regular visits to the country's homepage should fully meet their needs. The benefits individual countries derive from membership of the OECD are now visible as can be seen from the volume of work carried out by OECD experts and the wide array of issues covered on each country.



Visitors can browse the country sites in the way that suits them best, be it by topic, chronological order, document category, or even language. Targeted information on each country is prominently displayed in greater detail than before. Essential material such as major OECD studies or the most recent key statistics are described at length and presented with OECD documentation available in national languages. Each site also provides information on obtaining OECD publications in that country, links to useful government sites and information on the country's national delegation to the OECD.

Starting on a country Web site, visitors can also easily expand their research and benefit fully from the OECD's expertise in analysis covering and comparing several countries. For example, case studies for several countries are presented side by side, and whenever possible, the country sites refer to background documentation or sites on corresponding topics. Statistical information is organised in a similar way: the "OECD average" is always provided beside the country results, along with a link to the same data for all OECD countries.

A new tool has been set up for publishing out of OECD.Stat, the Organisation-wide statistical database. The annual bestseller, *OECD in Figures*, included for the first time a new feature, Statlink, which enables readers to access the live data files behind the graphs or tables in OECD books.

The OECD also produced in 2004 its first publication designed specifically for the textbook market, *Understanding Economic Growth*, with partner Palgrave Macmillan.

Civil society

www.oecd.org/civilsociety
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The OECD has had co-operative activities with civil society since its creation, principally through the Business and Industry Advisory Committee to the OECD (BIAC) and the Trade Union Advisory Committee (TUAC). Over the last decade, this co-operation has been complemented by increasing activities with other civil society organisations (CSOs) through regular consultations with OECD committee members and the annual OECD Forum.

Civil society participates in OECD workshops and forums away from headquarters including in countries outside the OECD membership. Participation is particularly strong in such areas as investment, the multilateral trading system, the OECD Guidelines for Multinational Enterprises, corporate governance, fighting corruption, the environment, development, biotechnology, food and agriculture, information and communications, and territorial development. Taking advantage of the Internet, online consultations are becoming a regular practice at the OECD to invite public comment on draft guidelines.

The first civil society newsletter, CivSoc, was launched in February 2005 and will appear regularly on the OECD Web site. It offers information about OECD activities with civil society, and a calendar of upcoming events. Anyone who wishes to receive the newsletter automatically may sign up on line.

The Visits programme is also part of the OECD's strategy to enhance its visibility and transparency to civil society. More than 2 500 people visited the OECD in 2004 to learn more about its work.

The profile of visiting groups has shifted in recent years from a large proportion of university students to include civil servants in OECD countries, parliamentarians, trade unionists, business and professional groups – teachers, lawyers, bankers, journalists – many of them interested in a specific area of OECD work, like tax, education and sustainable development.

The Organisation continues to increase dissemination of its work in languages other than English and French. Around 300 summaries were translated and made available online in 2004.

Media

www.oecd.org/media
news.contact@oecd.org

The media play an important role in bringing the Organisation's expertise and policy recommendations to a wide audience. The media division helps deliver clear, focused messages to the media, and through them to policy makers and the public at large, about the OECD and its work.

It also helps to develop communications strategies and organises message development and interview training sessions for OECD experts. It produces news releases, organises news conferences and interviews with OECD experts, and helps journalists obtain answers to requests for data and analysis. Its work contributed during 2004 to strengthening the Organisation's external communications, thereby increasing international awareness and understanding of its work. This has been reflected in a growing number of articles and broadcast items providing information and comment on the OECD, both within the OECD area and outside it.

As the OECD has developed its activities in non-OECD countries, notably Russia and China, it has also extended its media outreach work. News conferences are increasingly held outside OECD headquarters, extending the range of media served. OECD centres in Berlin, Mexico, Washington and Tokyo have played a liaison and information role with local media by hosting numerous press conferences and briefings throughout the year.

OECD Observer

www.oecdobserver.org
observer@oecd.org

The *OECD Observer*, the Organisation's public magazine, served 2.2 million pages on line in 2004, while its print edition saw paid subscriptions steady after a rise in 2003. Issues in 2004 included special focuses on education, health and the environment, and featured articles from several ministers.

One highlight of 2004 was the hosting by the *OECD Observer* of the 40th anniversary meeting of the UN editors group in Paris in June. Chief and senior editors from magazines and journals in the UN, IMF, World Bank, ILO, IAEA, UNESCO, ITC, among others, spent two days at the OECD discussing issues such as technology and publishing, influencing policy, reaching wider audiences, and tightening co-operation.

The *OECD Observer's* expansion will continue in 2005, both on line and in print.



Parliamentarians

www.oecd.org/civilsociety
meggan.dissly@oecd.org

The OECD maintains close relationships with parliamentarians in member countries, and has recently strengthened this link by launching a programme of high-level parliamentary seminars to disseminate its work to parliamentarians as well as to obtain their views on OECD policy analysis. A seminar on corporate governance was held in September 2004, and the first parliamentarians' seminar of 2005 took place in February on the subject of

Business and Industry Advisory Committee to the OECD (BIAC)

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- Chairman:** Jin Roy Ryu, Chairman and Chief Executive Officer of Poongsan Corporation (Korea)
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Trade Union Advisory Committee to the OECD (TUAC)

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Administrative Committee:

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



TUAC General Secretary
John Evans.

General Secretary:

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education. It covered the latest report on the Programme for International Student Assessment (PISA), the quality of the teaching profession and the internationalisation of higher education. Other parliamentary seminars held at the OECD have dealt with health and sustainable development.

The OECD has long-standing institutional relations with parliamentarians through the Council of Europe and the NATO Parliamentary Assembly. Members of the Economics and Security Committee of the NATO Parliamentary Assembly hold an annual meeting with the OECD secretariat every February. The Committee for Economic Affairs and Development of the Parliamentary Assembly of the Council of Europe visits the OECD for briefings each Spring. Every autumn, the Council of Europe holds a debate on the work of the OECD in Strasbourg with the participation of the OECD.

The OECD Centres

www.oecd.org/centres

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

The Centres were particularly busy in 2004; the **Tokyo Centre** organised a symposium to celebrate the 40th anniversary of Japan's membership of the OECD in July (*see box page 12*), and the **Mexico Centre** marked the 10th anniversary of Mexico's OECD membership by hosting a Forum (*see box page 12*). The Mexico Centre also launched a Latin American Programme as part of a strategy to enhance the visibility of the OECD in countries such as Argentina, Chile, Colombia and Peru.

The **Berlin Centre** hosted many conferences during the year, and held a two-day regional OECD Forum in Berlin in March on "International Perspectives on Growth and Employment". Participants included the Federal Minister of Economics and Labour Wolfgang Clement, OECD Secretary-General Donald J. Johnston, and representatives from the Federal Government, employers, trade unions, civil society organisations, academia and media. The OECD's work on education had the most impact, however. The latest PISA report triggered a nationwide public debate on Germany's reform challenges, reaching far beyond school issues, and kept the OECD in the headlines for several weeks. During the year, the two offices in Bonn and Berlin were merged into one new OECD Berlin Centre.

The **Washington Center** serves as an information center for the US and Canadian markets through promotion of OECD materials and public outreach. The Center also acts as a liaison to the legislative and executive branches of the US government. Over the past year, the Center has broadened the availability of OECD data by increasing SourceOECD clientele, as well as through public and media events designed to highlight specific topics. One such event, co-hosted with the American Enterprise Institute (AEI), a widely respected think-tank, focused on OECD analysis of agricultural producer support. In the coming year, the Center will foster relationships with the private sector.



(Left to right)
International Diabetes Federation President, Pierre Lefèbvre, Coca-Cola Chief Innovation Officer, Danny L. Strickland and World Heart Federation CEO, Janet Voûte.

OECD Forum

www.oecd.org/forum2005
oecd.forum@oecd.org

People are living longer, healthier lives, but governments could do more to ensure that their health systems are providing cost-effective, quality care for all. That was one of the key messages to emerge from OECD Forum 2004 on the theme “Health of Nations” which brought together some 1 250 participants from more than 70 countries.

The OECD Forum offers a unique opportunity for leaders from business, labour and non-governmental organisations to discuss key issues of the 21st century with government ministers and senior officials of international organisations. The Forum is open to the public and is held immediately before the OECD annual ministerial meeting, allowing participants to shape the ministerial deliberations.

Mexico chaired the 2004 ministerial meeting, and Foreign Minister Luis Ernesto Derbez made a keynote address at the Forum. Other highlights included a health ministers’ round table grouping ministers from OECD and non-OECD countries with academics and health professionals. French Foreign Minister Michel Barnier made a plea for a more humane globalisation and former Korean President and Nobel Peace laureate Kim Dae-jung addressed prospects for peace and development in Asia.

OECD Forum 2005, “Fuelling the Future: Security, Stability, Development” will take place alongside the OECD annual ministerial meeting in Paris on 2 and 3 May. ■



(Left to right)
Lee Hee Ho, wife of Kim Dae-Jung, Former President of Korea and Nobel Peace Prize Winner, and John Sweeney, President, American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) during the OECD Forum.

International Energy Agency

www.iea.org
info@iea.org



The International Energy Agency (IEA) is the forum for energy co-operation among 26 OECD member countries. In 2004, the Agency celebrated its 30th anniversary. To commemorate the occasion, the IEA Governing Board convened a special meeting in Istanbul in April 2004 – at the invitation of the Turkish Government – to reflect on the Agency’s achievements since 1973 and to reinforce efforts to meet future energy challenges.

While energy markets and the world have changed over the past 30 years, energy security and emergency preparedness remain fundamental IEA objectives. However, security considerations have become more broadly defined to include natural gas, electricity and other forms of energy.

Recent high and volatile oil prices have also raised concerns about energy’s impact on the global economy. Other key challenges include: ensuring adequate energy investment and good governance; meeting environmental goals; promoting new technologies; and combating energy poverty. IEA work reflects these policy priorities.

Oil markets and security

The IEA’s monthly *Oil Market Report* (OMR) is regarded as a reliable source of information on world oil market fundamentals, covering supply, demand, OECD stocks and prices. Subscribers to the OMR (and the general public, on a time delayed basis) have access to the OMR via Internet, obtaining disaggregated data behind each chart and graph.

www.oilmarketreport.org
omr@iea.org

Energy and climate change

The IEA pursued activities on climate policy, from the competitiveness implications of CO₂ emissions trading to the links between energy security and climate policy objectives, and the contribution of energy efficiency policy.

Energy diversification

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

Energy technology

The IEA published a suite of overviews and analyses concentrating on the core technologies being options for meeting the increasing challenge of improved energy security and mitigation of greenhouse gas emissions. *Oil Crises & Climate Challenges – 30 Years of Energy Use in IEA Countries*;

Renewable Energy: Market & Policy Trends in IEA Countries; Prospects for CO₂ Capture and Storage and Hydrogen and Fuel Cells: Review of National R&D Programs and other books and papers are publications designed to assist energy and climate policy makers to shape appropriate policies.

The Committee on Energy Research and Technology (CERT) created an Ad-hoc Group on Science and Technologies to strengthen connections between basic sciences and energy technology R&D programs.

Relations with IEA non-member countries

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

Following the decision to establish the secretariat of the International Energy Forum (IEF), the IEA assisted member and non-member countries in developing the format and goals of the IEFS. The IEA is a non-voting member of the IEF's Executive Board and participated in the IEF ministerial meeting in Amsterdam in May 2004.

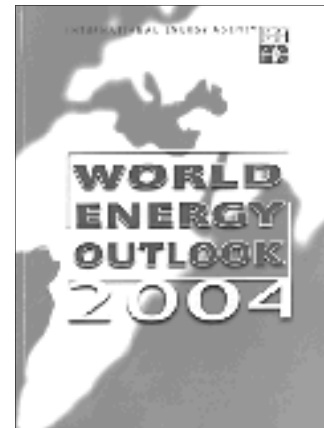
Energy statistics

Liberalisation of the energy market, additional data requested from statisticians on renewables, efficiency and emissions, budget cuts and the shortage of experienced staff have led to issues in data quality, completeness and timeliness of several countries.

Knowing the importance of a sound energy information system, the IEA has embarked upon a programme of action to reverse the current trends by developing tools to facilitate the preparation and delivery of reliable statistics, thus raising the profile of energy statistics in countries.

Strengthening the expertise and experience of energy statisticians, and rebuilding corporate memory are key priorities. This is the reason why the IEA, in co-operation with Eurostat, has released an Energy Statistics Manual to help newcomers in the energy statistics field to have a better grasp of definitions, units and methodology.

As regards the political support to energy statistics, the Joint Oil Data Initiative (JODI) has certainly contributed to drawing the attention of member countries to the importance of reliable, timely and complete statistics to monitor the oil market. ■



This publication presents long-term projections for supply and demand of oil, gas, coal, renewable energy sources, nuclear power and electricity. It also assesses energy-related carbon dioxide emissions and policies to reduce them.

stats@iea.org

Nuclear Energy Agency

www.nea.fr
nea@nea.fr



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

The economic, technological and social implications of this energy source require particularly careful examination of such issues as the safety of nuclear installations, the disposal of long-lived radioactive waste, the radiological protection of workers and the public, and the decommissioning of nuclear facilities. Basic economic questions and emerging scientific issues are also at stake. All of these aspects are reflected in the NEA's work, described more fully in the *NEA Annual Report* and the recently adopted NEA Strategic Plan for 2005-2009, both of which are available on the NEA Web site.

The safety of nuclear installations and radiological protection

Regulatory authorities play an important role in helping to ensure the safety of nuclear installations. Heads of the nuclear regulatory authorities of OECD countries met with senior government officials and executives from the nuclear industry in June 2004 to discuss licensee control over nuclear safety aspects of technical support services and contracted work, as well as the type of inspections needed to satisfy regulators that these controls are adequate. High-level discussions also took place in January 2005 in Tokyo at a workshop on nuclear safety management and the effectiveness of inspections, held in co-operation with the International Atomic Energy Agency (IAEA).

As part of its work with non-OECD countries, the NEA is helping to organise and conduct a peer review of a new set of technical regulations on nuclear safety and radiological protection being prepared by the Federal Nuclear Regulatory Authority of the Russian Federation.

Recent NEA work on radiological protection continued to focus on shaping the next international system of protection, in the process of being finalised by the International Commission on Radiological Protection (ICRP). The new set of ICRP recommendations should be completed in 2006.

An international seminar on nuclear law and environmental protection was held in July 2004 in Romania. The European Commission co-sponsored the event.

Radioactive waste management and decommissioning

Managing radioactive waste concerns both technical experts and the public. In October 2004, the NEA Forum on Stakeholder Confidence, which facilitates the sharing of experience in addressing the societal

DID YOU KNOW...
that nuclear energy supplies about
a quarter of the electricity used
in OECD countries?

dimension of radioactive waste management, held its fourth workshop in Germany.

The NEA continues to conduct international peer reviews of national waste management programmes. In 2004, the Agency published a review of a Swiss report on the safety aspects of a repository project deep underground in the Opalinus Clay formation. In 2005, a review of the French “Dossier 2005 Argile” on the feasibility of disposing of high-level, long-lived waste in a deep geological clay formation in France, will be undertaken.

Given that numerous nuclear power plants will reach the end of their operational life in the coming years, the decommissioning of these plants is becoming an increasingly important issue for many member countries. In September 2004, five NEA technical committees joined forces to organise a major international conference in Rome on safe, efficient and cost-effective decommissioning. Productive exchanges of views took place among regulators, implementers and policy makers on further needs for government activities in this area.

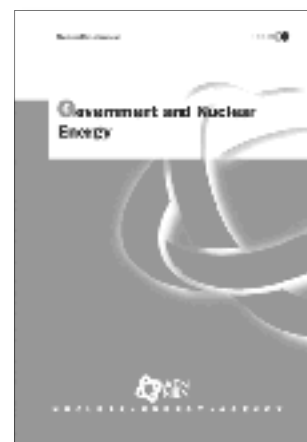
Economic issues

The NEA and the International Energy Agency (IEA) jointly conducted a study on projected costs of generating electricity, published early in 2005. This is the sixth in a series of reports recognised as an international reference on the economics of electricity generation. The NEA and the IEA will also hold a joint workshop in May 2005 to investigate the role of government policy in ensuring security of supply in liberalised energy markets.

Looking ahead

The NEA continues its involvement with the Generation IV International Forum (GIF), which is exploring new nuclear energy systems and the related research and development (R&D) needed for their deployment by 2030. It is providing technical secretariat services for the GIF’s forthcoming R&D phase, which involves 10 countries and the European Atomic Energy Community (Euratom).

At the November 2004 meeting of the American Nuclear Society (ANS) on “Nuclear in the 21st Century – Going Forward Together”, held in Washington DC, OECD Secretary-General Donald J. Johnston underlined the important contribution that nuclear energy can make in helping to combat climate change. Increased interest in the use of nuclear energy for this and other reasons was also noted at the 19th World Energy Congress, held in Sydney in September 2004, during which NEA Director-General Luis Echávarri chaired the session “Nuclear Energy – Inevitable or Irrelevant”? ■



This report examines the role of government in the nuclear energy field from the early 1950s to today, while highlighting the challenges raised by electricity market liberalisation, the need to ensure security of supply and sustainable development, including alleviating global climate change.

European Conference of Ministers of Transport

www.oecd.org/cem
ecmt.contact@oecd.org



The European Conference of Ministers of Transport (ECMT) is an intergovernmental organisation that enables ministers responsible for inland transport to co-operate on policy development. The ECMT comprises 43 full member countries, as well as seven associate members and one observer country. The ECMT is administratively part of the OECD and contributes to many of the Organisation's activities.

The ECMT has a dual role. It helps to create an integrated transport system throughout the enlarged European Union that is economically efficient and meets environmental and safety standards. At the same time, the ECMT's mission is also to develop reflections on long-term trends in the transport sector including the implications of increased globalisation. The creation of a Joint OECD/ECMT Transport Research Centre in January 2004 reinforced these activities.

Security in transport

The transport system has long been at risk from terrorists as a target that enables them to inflict maximum damage to infrastructure, vehicles and human lives. The bomb attacks on public transport in Moscow and Madrid in the spring of 2004 underlined this vulnerability. The problem of security and terrorism in the transport sector was a major topic at the annual meeting of ECMT ministers in Ljubljana in May 2004. Ministers adopted a Declaration on Security and Terrorism in the Transport Sector, which stresses the need to promote a co-ordinated framework among different modes of transport for security throughout this sector.

Ministers also approved a series of recommendations on container transport security, which was based on an ECMT/OECD joint report that focused specifically on terrorism and the container transport system. The report, to be published in 2005, describes a complex transport system and recommends measures that transport authorities, in particular inland transport and maritime authorities, can take to improve container security.

Infrastructure planning for a wider Europe

The recent enlargement of the European Union and rapid increase in trade – inside Europe and with the rest of the world – have created a need to revise the framework and instruments currently used to develop international transport infrastructure.

The pan-European transport conferences held in Crete in 1994 and Helsinki in 1997 helped define Pan-European transport corridors outside the European Union for the development of major links with central and eastern Europe. Nearly ten years after the Crete conference, the region's new economic and political context calls for a review of these corridors. As a result, ECMT ministers at their meeting in Ljubljana adopted a Declaration on a strategy for the development of transport infrastructure in a wider Europe.



This publication explores how improved co-operation between public transport service providers and local authorities – along with a sustained dialogue with the disabled community – can ensure better accessibility to public transport.

Statistics

Since 1991, co-operation among the United Nations Economic Commission for Europe (UN/ECE), the Statistical Office of the European Communities (EUROSTAT) and the ECMT has been strengthened considerably by the establishment of an inter-secretariat working group in which the ECMT plays an active part. During 2004, the group prepared the final version of the Road Accident questionnaire, to be included in the Web version of the common questionnaire to collect data for the year 2004, the annual leaflet *Trends in the Transport Sector 1970-2002* and the *Statistical Report on Road Accidents in 2002*.

The secretariat also carried out regular updates of the database on short-term trends in the inland transport sector. During the year 2004, four quarterly surveys were undertaken and the information is available on the ECMT Web site. Also, transport infrastructure investment data, which was previously published every five years, will now be published annually once the reform of data collection is completed.

Joint OECD/ECMT Transport Research Centre

In January 2004, the Joint OECD/ECMT Transport Research Centre was established following decisions by the OECD Council and the ECMT Council of Ministers to merge the OECD's Road Transport and Intermodal Linkages Research Programme and the ECMT's economic research activities. All OECD and ECMT countries are full members of the Joint OECD/ECMT Centre, which aims to promote economic development and contribute to structural improvements of OECD and ECMT economies through co-operative transport research programmes.

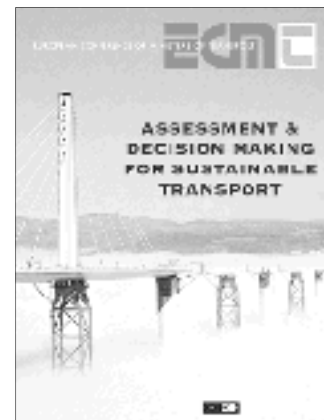
The new Joint Transport Research Committee – which comprises representatives nominated by the 50 OECD and ECMT member countries – held two meetings in 2004. The first, in February 2004, considered the new centre's programme of work, which included a number of projects and activities in 2004. The ECMT ministerial meeting in Ljubljana in May approved this work programme, which was subsequently approved by the OECD Council in July 2004. The Committee held its second meeting in October 2004 to consider the work programme in more detail, and endorsed the new projects to be initiated and undertaken in 2005. The establishment of the Joint Transport Research Centre consolidated transport activities in the OECD family and created a stronger and more co-ordinated service for all member countries.

Political issues

Topics for the 2005 annual ministerial meeting in Moscow in May include infrastructure charging in the development of railways (the question of fair and efficient pricing of transport infrastructure), access to road transport markets, transport links between Europe and Asia and the financing of urban public transport. ■

DID YOU KNOW...

that in the 21 ECMT Western Europe countries, between 1970 and 2003, the number of deaths on roads dropped by 48%, but the number of road accidents increased by 3%?



This report makes recommendations for good practice in the transport sector on the basis of reviews of recent experience in infrastructure planning and policy development in seven countries.

The international fight against money laundering and terrorist financing

The Financial Action Task Force (FATF) is an international body that develops policies to protect the global financial system against money laundering and terrorist financing. A series of FATF Recommendations cover the criminal justice and regulatory measures that national systems should have in place to face up to this problem. The FATF Recommendations also include international co-operation and preventive measures to be taken by financial institutions and others such as casinos, real estate dealers, lawyers and accountants.

A key element of the FATF's work in 2004 was adopting new methods for assessing whether countries have implemented adequate anti-money laundering and counter-terrorist financing measures. The International Monetary Fund and the World Bank, as well as FATF-style regional bodies, made a significant contribution to developing the new methods. These institutions and bodies now have a common framework for conducting assessments. The FATF will use the new methodology for the third round of mutual evaluations of its members beginning in 2005.

The FATF published Special Recommendation IX in 2004, further reinforcing recommended measures for combating money laundering and terrorist financing. The new Recommendation calls on countries to put measures in place that will allow them to stop cross-border movements of currency and money instruments related to terrorist financing and money laundering and to confiscate such funds. It also calls for enhanced information-sharing between countries on the movement of illicit cash related to terrorist financing or money laundering.

The FATF also reported significant progress in 2004 and early 2005 in persuading countries to join the international fight against money laundering. Egypt, Ukraine, Guatemala, the Cook Islands, Indonesia and the Philippines left the list of Non-Co-operative Countries and Territories (NCCT), reducing the list to three: Myanmar, Nauru and Nigeria.

In late 2004, countries agreed to set up new FATF-style regional bodies. The EAG, for the Eurasian region, has five member countries, and MENAFATF for the Middle East and North Africa, has 14 members. The FATF's third five-year mandate came to an end in 2004. Its 33 members carried out a review of its mission and priority activities and decided to extend the mandate for a further eight years. The FATF is an independent international body whose secretariat is housed at the OECD. Its members are: Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, European Commission, Finland, France, Germany, Greece, Gulf Co-operation Council, Hong Kong (China), Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, Kingdom of the Netherlands, New Zealand, Norway, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States. ■

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



DID YOU KNOW...

that there are seven FATF-style regional bodies that share the same mission and objectives as FATF? Together they cover some 140 countries worldwide.



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

HOW THE OECD
WORKS



Executive directorate

www.oecd.org

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

A major event in 2004 was the start of construction work on a new conference centre at the main headquarters site in Paris (*see box page 8*). In 2005, the Executive Directorate will continue to take forward the major reforms in hand, including the further development of the OECD results-based framework as well as the site project. It will also strengthen financial management and review its human resource policies.

Programme of work and budget

The ongoing reform of the OECD's planning, budget and management processes focused in 2004 on measuring and evaluating its output. Systematic evaluation of results was introduced in 2004 and in-depth evaluation will begin in 2005. These changes are part of a reform process which began in 2002 and has also included the introduction of a two-year budget system. Results-based budgeting and management are fully applied for the first time in the 2005-2006 two-year budget.

The Organisation is focusing more on planning linked to expected outcomes and on monitoring and evaluating the impact of its output results. These changes have led to significant resource reallocations (double the 2003 level) despite budget increases averaging less than host country inflation.



(Left to right)
Spanish Minister of Health and Consumer Affairs, Elena Salgado Méndez, Chilean Permanent Representative, Marcelo Garcia and Chilean Minister for Economy, Sergio Bitar, at the OECD annual ministerial meeting in May 2004.

Human resource management

www.oecd.org/hrm
personnel.contact@oecd.org

This service is responsible for recruitment, support to managers, staff administration, training, well-being activities and counselling services. In 2004, it laid the groundwork for a review of staff policies and the development of a new employment framework for the Organisation. Completing this review and implementing it will be the main priorities for 2005-2006.

The human resources service will also streamline its structure and dedicate more internal resources to policy and gender issues. The re-organisation of work, notably payroll management, will improve the services offered. Operational and recruitment procedures will be further streamlined via e-technology. An international call for tender for a new service provider for the Organisation's health coverage insurance will be launched in 2005.

Financial resources management

New Financial Instructions and Procedures were introduced in 2004 to complement the revised Financial Regulations and Rules. These allow for more effective and efficient financial management in the areas of expenditure, income, treasury and procurement. Further work will be undertaken in 2005 regarding documentation of budgetary procedures. The continued enhancement of financial systems will support better control, reporting and management of resources as well as the shift to results-based budgeting. With the assistance of external auditors, annual financial statements are prepared in accordance with International Public Sector Accounting Standards, for submission to the Organisation's Board of Auditors for final certification. A copy of these statements is available on the OECD Web site at www.oecd.org/about/finstatements.



Work begins on the renovation of the La Murette site and the construction of a new conference centre.

Procurement and contract management

www.oecd.org/pcm
pcm.info@oecd.org

This service ensures that the OECD operates an open and competitive procurement environment that will enable the Organisation to contract for high quality goods and services at best value prices. In 2004, clear and concise procurement procedures were drafted for the Organisation as a whole.

Much of the service's work during the year was devoted to the procurement aspects of the renovation of the La Murette site and the construction of a new conference centre.

It also examined the efficiency of a number of general services, such as cleaning and travel, to bring them into line with new trends in the market.

Strengthened security

Security has been strengthened for OECD staff, delegates and visitors in light of the increased international threat of terrorism. At the Paris headquarters, this includes stricter selection, training and evaluation procedures for security staff, as well as new facilities for preventing and detecting intrusion. The Organisation also evaluates potential threats and defines responses in

collaboration with national authorities in order to ensure the proper level of security for missions and meetings abroad.

Building maintenance, infrastructure services

During 2004, the OECD relocated its operations at the main Paris headquarters site at La Muette, without major disruption, to enable construction work to start on the Chateau part of the site (*see box page 8*). Three temporary conference rooms, a welcome lodge, a medical centre and other facilities were installed in the New Building and the final staff moves completed. New electricity, IT, water and other connections were installed to make the site's Franqueville building independent of the construction work. Rationalisation of the OECD estate continued with the closure of the Chardon-Lagache Annex and arrangements for its sale. Fire safety and security improvements to office space and facilities were made in Annexes Maillot and Ingres. Fire safety was also enhanced by further significant reductions in paper storage in offices. The services provided by the centralised copying workshop were enhanced with the installation of new printers, though with reduced capacity reflecting the drive to reduce printed documents.

DID YOU KNOW...
that in 2004 more than 5 000 candidates applied for job vacancies at the OECD?

Information and communications systems

The Executive Directorate provides information and communications technology (ICT) services to Committee delegates, government officials and secretariat staff. Major achievements in 2004 include improved online services for Committees, strengthened ICT facilities for the Organisation's policy work, and systems to support management reform. To assist Committee delegates and governments to keep up to date and interact on OECD issues, secure online access via the Internet, introduced in 2004, has already produced a 25% increase in usage. Committee delegates are also making greater use of meeting information services – agendas, documents, discussion groups and event information. The policy work of the Organisation is being facilitated by the use of new analytical tools and new statistical information systems to improve the efficiency of statistical processing, analysis and dissemination, and to simplify data access. Corporate management systems have contributed significantly to the OECD reform effort. In 2004, new information systems to support the Programme of Work and Budget reform were deployed, tools were introduced to help member countries evaluate programme delivery, along with analysis of requirements for a new system to support financial management reform. Underpinning these systems, the ICT infrastructure was maintained and improved with the strengthening of information security and anti-intrusion measures to protect against cyber threats, and the restructuring of key network systems as part of the renovation of the headquarters site.



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

Conference and language services

The OECD organised 2 700 days of conferences at headquarters and elsewhere in 2004, translated some 80 000 pages of documents and publications, and provided 1 227 days of interpretation into various languages. A three-year project to replace obsolete audio conference equipment was completed in 2004. In 2005, video-conferencing systems will be installed in larger conference rooms. ■

Who does what

www.oecd.org/about

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

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

During 2004, the leaders of a number of member countries (Hungary, Poland, Turkey and Finland) addressed the Council and 14 non-members were invited to participate in the annual meeting at ministerial level. Numerous dialogues also took place with the chairs of the major committees.

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

The committees are: Economic Policy Committee; Economic and Development Review Committee; Environment Policy Committee; Chemicals Committee; Development Assistance Committee; Public Governance Committee; Trade Committee; Investment Committee; Insurance Committee; Committee on Financial Markets; Committee on Fiscal Affairs; Competition Committee; Committee for Scientific and Technological Policy; Committee for Information, Computer and Communications Policy; Committee on Consumer Policy; Committee on Industry and Business Environment; Maritime Transport Committee; Steel Committee; Tourism Committee; Employment, Labour and Social Affairs Committee; Education Committee; Committee for Agriculture; Fisheries Committee; Territorial Development Policy Committee; Committee on Statistics.

The International Energy Agency (*see box page 112*) and the OECD Nuclear Energy Agency (*see box page 114*) deal with energy issues. Work mandated by the Council is carried out by the OECD secretariat's various directorates.

Development Co-operation Directorate (DCD)

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

The Development Co-operation Directorate (DCD) supports the work of the OECD's Development Assistance Committee (DAC) and of the OECD as a whole by assisting with policy formulation, policy co-ordination and information systems for development. The 23 DAC members constitute the world's major aid donors. The DAC's mission is to foster co-ordinated, integrated, effective and adequately financed international efforts in support of sustainable economic and social development. Recognising that developing countries themselves are ultimately responsible for their own development, the DAC concentrates on how international co-operation

can contribute to developing countries' capacity to participate in the global economy and overcome poverty. The DAC Chair issues an annual *Development Co-operation Report* on the efforts and policies of the DAC members, containing official development assistance (ODA) statistics compiled by the DCD. Under the authority of a Deputy Secretary-General, the DCD works closely with other OECD directorates on issues of policy coherence for development, addressed by OECD ministers in their 2002 statement "OECD Action for a Shared Development Agenda".

Economics Department (ECO)

www.oecd.org/eco

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

The department provides an overall framework to identify structural priorities needing government attention. It assesses the implications of a broad range of structural issues in an economy-wide perspective, drawing on work by a number of OECD specialised committees. This currently includes work on the economic implications of ageing, labour market policies, public expenditure, education and health systems, migration, innovation, product-market competition and financial market developments. The department also examines the implications of barriers to international trade in services and foreign direct investment, as well as the broad effects of globalisation.

In addition, the twice-yearly *OECD Economic Outlook* presents analysis of recent macroeconomic developments and near-term prospects, highlighting key policy issues, and includes chapters on related macroeconomic topics. About 20 *OECD Country Surveys* of member and non-member economies are published annually dealing with a broad range of key macroeconomic and structural challenges and, in some cases, analysing in depth a structural topic.

Directorate for Education (EDU)

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

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

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

Directorate for Employment, Labour and Social Affairs (ELS)

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

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

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

Centre for Entrepreneurship, SMEs and Local Development (CFE)

www.oecd.org/cfe
cfe.contact@oecd.org

In July 2004, the OECD Secretary-General created the Centre for Entrepreneurship, SMEs and Local Development, grouping the Local Economic and Employment Development (LEED) Programme and the Small and Medium-sized Enterprise (SME) Unit. The mission of the Centre for Entrepreneurship is to foster the development of an entrepreneurial society, capable of innovating, creating jobs and seizing the opportunities provided by globalisation while helping to promote sustainable growth, integrated development and social cohesion.

Environment Directorate (ENV)

www.oecd.org/env
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The Environment Directorate helps member countries to design and implement efficient and effective policies to address environmental problems and to manage natural resources in a sustainable way. To encourage more

sustainable consumption and production patterns, the directorate examines the interplay between the environment and economic, sectoral, or social concerns. It works with other directorates on key issues such as trade and investment, agriculture, transport, climate change, and environmental taxes and is a key contributor to the OECD's work on sustainable development. The directorate produces regular peer reviews of member countries' environmental performance. It keeps a permanent watch on environmental performance, compiles environmental data and indicators and produces future-oriented outlooks of environmental conditions. Its programme on environmental health and safety includes work on chemical testing and risk assessment procedures, co-ordinating data and laboratory practice standards, and harmonising methodologies for assessing the safety of modern biotechnology products. The work of the directorate supports the implementation of the OECD Environmental Strategy for the First Decade of the 21st Century, adopted by OECD countries in 2001.

Executive Directorate (EXD)

www.oecd.org

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

Directorate for Financial and Enterprise Affairs (DAF)

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

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

Directorate for Food, Agriculture and Fisheries (AGR)

www.oecd.org/agr
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The Directorate for Food, Agriculture and Fisheries provides analysis and advice to help governments design and implement policies that achieve their

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

Public Affairs and Communications Directorate (PAC)

www.oecd.org

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

Public Governance and Territorial Development Directorate (GOV)

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

The Public Governance and Territorial Development Directorate (GOV) helps countries to adapt their government systems and territorial policies to the changing needs of society. This involves improving government efficiency while protecting and promoting society's longer-term governance values.

Under the auspices of the Public Governance Committee and the Territorial Development Policy Committee, the directorate analyses how governments manage the public sector, improve public service delivery and make policy implementation more coherent. The directorate promotes innovation in territorial development policy and helps countries manage the current shift from providing subsidies to enhancing territorial competitiveness and from sectoral to place-based policies. It also develops recommendations on best practices and identifies emerging challenges such as e-government. The directorate is also developing comparative indicators on good governance and efficient public services.

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

Directorate for Science, Technology and Industry (STI)

The Directorate for Science, Technology and Industry (STI) helps OECD member countries adapt to the challenges of the “knowledge-based” economy, technological change and globalisation. The directorate provides statistics and analysis to underpin government policies on emerging scientific, technological and industrial issues, and offers a forum for policy dialogue. The Committee on Industry and Business Environment examines framework conditions for industrial competitiveness, productivity and performance of firms; it examines the factors that affect the performance of the services and manufacturing sectors as global value chains restructure. The Committee for Scientific and Technological Policy examines how to stimulate science and innovation, to enhance economic growth and societal benefits. It also examines the role of intellectual property rights in contributing to innovation and economic performance and promotes international science and technology co-operation. Biotechnology, and the trend towards a more bio-based economy, is intensively discussed. The Committee for Information, Computer and Communications Policy addresses the policy issues involved in digital economy and electronic business. The Committee on Consumer Policy focuses on consumer protection in the online marketplace. There is also a special Task Force to develop policy guidance to fight spam. In shipbuilding, steel and tourism, the STI works with member countries as well as key non-members to monitor developments and support negotiations towards the adoption of commonly agreed standards or “rules of the game”.

www.oecd.org/sti

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Statistics Directorate (STD)

The Statistics Directorate collects economic statistics from across the OECD. These are standardised to make them internationally comparable, and are published in both printed and electronic form. The monthly *Main Economic Indicators* is one of the directorate's principal publications. Other specialised publications cover foreign trade, national accounts, employment and unemployment and there are also regular releases of

www.oecd.org/std

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updated figures, including monthly unemployment rates and changes in consumer prices. Other parts of the OECD publish data and indicators for specialised sectors. In collaboration with statisticians from member countries and other international organisations, the OECD has played a major role in developing new data systems to respond to new policy concerns such as national accounts, energy supply and use, research and development, environment, social aspects and service industries. The Statistics Directorate is also in charge of co-ordinating all OECD statistical activities and of developing the new OECD statistical information system.

Centre for Tax Policy and Administration (CTPA)

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

The Centre for Tax Policy and Administration (CTPA) is the focal point for the OECD's work on taxation. The Centre services the Committee on Fiscal Affairs and examines all aspects of taxation. Its work covers international and domestic tax issues, direct and indirect taxes (other than customs duties) and tax policy and tax administration. The Centre's statistical publications provide annual comparisons of tax levels and tax structures in member countries and the Centre is also responsible for the OECD Tax Database.

The CTPA also fosters dialogue with non-OECD economies. The taxation partnership programme with non-OECD economies provides a forum to discuss emerging challenges and to promote international co-operation in taxation. The partnership programme is integral to all the core work areas of the Centre, particularly in the areas of negotiating, applying and interpreting tax treaties, transfer pricing and effective exchange of information between tax administrations. This programme involves dialogue with over 70 non-OECD economies.

The Centre contributes to the work of other OECD committees in projects which have a strong tax component. Recent examples include input on the use of tax instruments to achieve environmental policy issues, analysis of the impact of taxation on the functioning of labour markets and an examination of the link between taxation, entrepreneurship and growth.

Trade Directorate (ECH)

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The work of the Trade Directorate supports a strong, rules-based multilateral trading system that will maintain momentum for progressive trade liberalisation and rules-strengthening while contributing to rising standards of living and sustainable development in both OECD and non-OECD countries. It supports the process of liberalisation flowing from multilateral trade negotiations and the effective functioning of the multilateral trading system, centred on the World Trade Organization (WTO). Analytical work undertaken under the auspices of the OECD Trade Committee seeks to underpin the rationale for continued trade liberalisation and to foster an understanding of the links between trade liberalisation and a range of issues of public concern. This work advances an informed debate, helping build consensus on a range of pertinent issues. The directorate is involved in analysis and preparations for ongoing and future trade negotiations that may cover new categories of trade rules, such as those for the environment, competition policy and

investment policy. At the same time, its analysis of evolving trade issues and policies can help forestall problems that emerge under the pressure of ever-intensifying competition. And its unique work in export credits steers countries away from distortive trade.

Development Centre (DEV)

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The Development Centre serves as the OECD's strategic interface with the international development research community, to support the OECD's strategic priorities through research-based policy analysis and dialogue on development issues, with special emphasis on policy coherence issues. It also helps deepen the OECD's partnership with developing countries and various state and non-state actors interested in making a contribution to OECD policy deliberations; and provides a focal point for stakeholders in government and civil society, research and academia, and the media concerned with economic development in the poorer countries. The Development Centre's membership is entirely voluntary, and includes most OECD countries and some developing countries wishing to be engaged in the Organisation's development dialogue.

The Sahel and West Africa Club (SWAC)

www.oecd.org/sah

The Sahel and West Africa Club is an informal forum for analysis, informed debate and action supporting the efforts of West Africans in defining medium- and long-term development strategies for the region and advocating and promoting their implementation. It encourages and facilitates analysis, exchange of views and decisions, both South-South and North-South, in four main areas: medium- and long-term development perspectives of the region, agricultural transformation and sustainable development, local development and the process of regional integration, governance, conflict dynamics, peace and security. The work programmes to be carried out in each of these areas are consistent with the concerns for the future of the region notably in the New Partnership for Africa's Development (NEPAD), in the Vision of the Africa Union and in the partnership framework recently agreed between the Club's secretariat and ECOWAS' secretariat.

The Club secretariat is financed through voluntary contributions from a large number of OECD countries and benefits from a network of partners, inside and outside the West African region. It is attached administratively to the CCNM.

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

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The OECD has 30 member countries, but many more countries and economies outside its membership are involved in a wide range of the Organisation's work. The Centre for Co-operation with Non-Members (CCNM) develops and oversees the strategic orientations of the OECD's co-operation programme with non-members. The CCNM works with the Organisation's members to help them agree on the substantive priorities and to ensure that relevant regions and countries or economies are engaged in the Organisation's work. Furthermore, it advises the Secretary-General and his Deputies and

provides guidance to the secretariat to ensure that the OECD's relations with non-members develop in a co-ordinated manner and in line with the agreed strategic objectives. The Centre acts as a point of contact for non-members, guiding them in their relations with the Organisation, while maintaining an overall view of non-member's relations with the OECD. It co-ordinates both the non-members' participation in OECD bodies and the process of accession of new members. The CCNM is also a point of contact with other international organisations and promotes and co-ordinates relations with them.

The International Futures Programme

www.oecd.org/futures

The role of the International Futures Programme, which reports directly to the OECD Secretary-General, is to identify newly emerging economic and social issues that may have an important bearing on member countries' policy making in the years ahead. Its purpose is to promote strategic thinking, test new ideas for the Organisation, develop cross-disciplinary approaches, and stimulate dialogue among government, business and researchers on matters of long-term interest. Much of its work is made available in the form of OECD reports and publications. Current activities include analysis of the economic and scientific dimensions of security; advice to member countries on managing major risks – natural and man-made – in an increasingly interdependent and uncertain world environment; work on the financing of future global infrastructure needs; the future of space-based applications such as earth observation and global positioning and navigation; and the wider implications of the emergence of the bio-based economy. ■



The 2nd OECD Ministerial Conference on Small and Medium Enterprises held on 3-5 June 2004 in Istanbul, Turkey.

OECD directory

Economic growth and stability

Economic growth

www.oecd.org/economics

Outsourcing, employment and growth

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Taking stock of structural reform

www.oecd.org/eco/structural_issues

Coping with volatile oil prices

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Employment, social cohesion and environment

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Progress towards the MDGs

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— Ministerial Chair's summary

Mexico had the honour to chair the OECD Ministerial Council meeting on the tenth anniversary of its accession to the Organisation. We were delighted to welcome ministers from member and non-member economies. We benefited from consultations with representatives from business and industry (BIAC), trade unions (TUAC) and civil society more broadly at the OECD Forum.

Economic outlook

Ministers welcomed the strong recovery in the world economy. The recovery has been led by the United States and Asia, and ministers were confident that the euro area would follow. With inflation low and business sector balance sheets in much better shape, the fundamentals are healthy for future growth. But appropriate policies are needed to make the expansion robust and durable.

Ministers recognised that interest rates need to rise in countries furthest into recovery. This should not disturb markets given that their rates are currently low. A tighter monetary stance is necessary in order to safeguard the low inflation needed for strong, sustained growth. In other countries, notably Japan and some in the euro area, there is a continued need for relaxed monetary conditions.

Most countries recognised the need for fiscal consolidation. Expansionary fiscal policies helped to overcome the recession but deficits now need to be rolled back, especially given the growing ageing-related pressures on public spending. Ministers differed on whether fiscal consolidation should depend on a recovery in activity and whether structural reform would be eased by delaying consolidation.



(Left to right)
Hungarian Deputy Secretary of State for Foreign Affairs, István Major and WTO Director General, Supachai Panitchpakdi during the ministerial meeting.

The need for structural reform, particularly in continental Europe and Japan, was recognised by most ministers.

Ministers also identified a number of risks, including those stemming from oil prices, but were confident that, because the weighted index of oil prices has not risen significantly, this could be handled provided that prices do not rise much further.

Ministers discussed outsourcing. In itself, outsourcing is part of the continuing trend towards international integration, and should be welcomed because it leads to higher productivity and real incomes. However, a number of ministers considered that the OECD could help to dispel fears about this issue. Some workers, companies and communities will be adversely affected, at least in the short term. OECD countries therefore need policies that help the adjustment of people who are dislocated because of outsourcing or other developments. If a smooth adjustment is not achieved, protectionist pressures may rise.

In the context of encouraging growth and improving surveillance of structural reform policies, a number of countries supported a request that OECD economic surveys of the euro area review policies on a similarly comprehensive basis as economic surveys for member countries outside the European Union. They looked forward to a response from the European Commission in the near future.

Strengthening growth in an era of demographic change

While recognising that population ageing is a good thing in that people are living longer, healthier lives, ministers emphasised that, as a result, policy adjustments are essential to sustain growth and healthy public budgets. There is much to do and, in many countries, not much time to get it done.

Ministers recognised that retirement patterns, which are driven to a large extent by counter-productive policies, must change. In a number of societies, reforms are underway, but most countries need to go further in reforming their pensions and other benefit systems. Linking pension levels and retirement ages to life expectancy would make pension systems more robust.

There was general agreement that pension and other benefit programmes should not encourage older workers to leave the labour market. But opinions differed on whether tax/benefit policies should go further in promoting later retirement.

While some countries predicted few problems in absorbing a large supply of older workers, others noted that to do so would require more dynamic labour markets. On this issue, many noted the vital importance of upgrading skills through lifelong learning. Some ministers stressed that attitudes among employers and older workers would need to change for these reforms to succeed.

Population ageing also requires greater efforts to raise employment rates among other under-represented groups like younger people, women and the disabled. In this regard, a number of ministers stressed the need for



(Left to right)
Canadian Minister of Health,
Pierre Pettigrew, and Netherlands'
Minister for Health, Welfare and Sport,
Hans Hoogervorst, at the ministerial
meeting.

better integration of immigrants. These efforts make economic sense and also help achieve social objectives.

Many countries thought that sources of retirement income had to become more diverse. Private pension saving will play a more important role in some countries. But private pension arrangements need appropriate regulation to ensure that their coverage is wide and that the risks are well understood.

Ministers recognised that higher productivity would help preserve overall growth in ageing societies. In this regard, several ministers emphasised the critical importance of “intellectual assets”, including human capital, innovation and business networks in enhancing productivity and in sustaining growth in a competitive global market. They proposed a programme of work aimed at improving understanding of the role of intellectual assets and their importance to economic performance. The joint proposal was referred to the OECD Council for further consideration.

Health financing

Health and finance ministers noted that demand for healthcare will continue to grow as a result of people living longer lives. They noted, however, that this growing demand and further technological advances in modern medicine will increase pressure on public sector budgets. Hence the focus should be on maximising value for money.

A number of ministers recognised that there is scope for some increase in public spending on healthcare. But they also agreed on the need to ensure the cost-effectiveness of any additional spending. While households could pay a larger share of healthcare costs in many countries, it is important to ensure that low income households and the chronically ill continue to have access to healthcare. In addition, ministers noted that individuals need to take greater responsibility for their own health.

Healthcare systems must be financially sustainable over the longer term. In this context, macroeconomic controls, such as budgetary caps, have successfully controlled costs in many countries. Governments need, however, to implement such measures in ways that minimise negative effects on the efficiency and quality of healthcare.

Ministers' views differed on the role of co-payments and private health insurance in containing demand and ensuring financial sustainability. Some argued that private insurance could offer greater consumer choice, help to limit public expenditure and more generally play a more significant role with appropriate regulation. Others doubted that private health insurance can help contain costs and were concerned that increasing its role would threaten the goal of universal coverage.

While noting that health systems are different and there are no easy solutions, ministers agreed that investing in prevention and increasing value for money in healthcare can help to bridge the gap between the demand for high quality care and its financial costs. In this respect, they discussed alternative fiscal strategies to enhance the effectiveness of preventive care.



The OECD can help its members through information gathering, analysis and evaluation of policies.

Ministers noted the close linkages between health systems performance, healthy populations and economic development. Since healthy populations help foster sustained economic growth, public healthcare spending is not only a budgetary cost but also an investment in the future economic and social development of our societies.

Trade

Ministers agreed that there is no substitute for the multilateral trading system, and that positive results on the Doha Development Agenda will help renew and strengthen trust in that system.

Ministers were determined to reach basic agreements on frameworks for key issues of the Doha Agenda by July of this year. They shared the view that these agreements need to build on the lessons of the Fifth WTO Ministerial Conference in Cancún and on the work performed and the contributions made since then. They noted that momentum has been building, and that they should take advantage of the window of opportunity that has now opened.

Ministers recognised that agricultural reform holds the key to progress. There have been encouraging signs, but much work needs to be done before July on all three pillars (export competition, domestic support and market access) to reach a point where a balanced agreement is possible.

Movement on agriculture will help generate progress on the other core issues of the DDA, such as non-agricultural market access, services, rules and development issues.

On the Singapore issues, the Chair sensed emerging agreement among the WTO members that trade facilitation warrants multilateral negotiations under the DDA single undertaking. On the other Singapore issues – transparency in government procurement, investment and competition – the consensus seems to be moving towards maintaining them in the existing study groups.

Another focus of discussion was trade and development, where much has been accomplished since the launch of the DDA, but further progress is needed. Ministers agreed that the concerns of the poorest countries have to be taken to heart in July and in the final DDA agreement. This is an area of the highest importance.

Finally, ministers agreed that all participants must now translate political will into concrete and decisive actions that give impetus to the technical work in Geneva until July, and which move forward the Doha Development Agenda, to the benefit of citizens worldwide.

Revised OECD Principles of Corporate Governance

In light of the need to rebuild and maintain public trust in companies and financial markets, ministers warmly welcomed the recent agreement to a



(Left to right)
Spanish Minister of Health and Consumer Affairs, Elena Salgado Méndez; Spanish Secretary of State for Economic Affairs, David Vegara Figueras, and Permanent Representative of Spain to the OECD, Elena Pisonero, during the ministerial meeting.

revised version of the OECD's Principles of Corporate Governance. Ministers encouraged the wide dissemination and active use of the Principles, and a sustained policy dialogue among governments and other concerned parties.

Sustainable development

Ministers welcomed the results of the three-year project on sustainable development. This shows, *inter alia*, that governments could achieve the same results in protecting the environment at significantly lower cost through the greater use of more cost-efficient instruments in many countries. Alternatively, more ambitious environmental objectives could have been achieved for little or no additional cost. This potential benefit has not been exploited partly because of the lack of integration of environmental and economic concerns in policy making. Ministers endorsed the recommendations for further work on sustainable development in the OECD.

Financial Action Task Force

Ministers paid tribute to the significant achievements of the FATF over the past years in combating money laundering and terrorist financing, especially the successful revision of its Forty Recommendations as well as the issuance of the Eight Special Recommendations and the relevant guidance for their implementation. Ministers welcomed the decision of their FATF colleagues to extend the mandate of the Task Force for a further eight years in order to deepen and expand its vital work.

OECD reform

Ministers welcomed the recent agreement to a number of measures concerning the future role and governance of the OECD, including a strategy for enlargement and for strengthening relations with non-OECD economies; the establishment of a new decision-making method for special cases; and the amendment to the scales of contribution by members to the budget of the Organisation.

Ministers invited the Secretary-General to report on the implementation of the agreed next steps at their next meeting. They supported further reallocation of resources to high priority work informed by a strengthened evaluation process. Several ministers stressed the importance of budget stability for the Organisation. Some countries called on the OECD to develop a more strategic approach to its work with non-member economies, in order to increase its global impact. Finally, a number of ministers encouraged the OECD, in co-operation with other international organisations, to work with countries in the Middle East and North Africa to promote good governance, investment and economic development. ■

PRACTICAL
INFORMATION



The OECD secretariat

March 2005

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Donald J. Johnston

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Finland, 1969	Poland, 1996
France, 1961	Portugal, 1961
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