# OECD FORUM 2007

## Innovation, Growth and Equity

## Highlights

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Tel.: +33 (0)1 45 24 82 00
Fax: +33 (0)1 44 30 63 46
sales@oecd.org

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OECD PUBLISHING
2, rue André-Pascal
75775 Paris cedex 16, France
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OECD FORUM MANAGER
John West
EDITORS
Rory Clarke, Sue Kendall, Ricardo Tejada
EDITORIAL ASSISTANTS
Gwendoline Brucker, Christine Clément, Gráinne Mooney, Roman Winicki
CONTRIBUTORS
Olivia Malfione, Brian McGarry, Riona Molloy, Michael Sykes, Lyndon Thompson, Carolyn Whitten and students of HEC
LAYOUT
Vif Argent
PUBLICATION CO-ORDINATOR
Christine Clément
PHOTO EDITOR
Silvia Thompson
ASSISTANT PHOTO EDITOR
David Sterboul
PHOTOGRAPHERS
Hervé Cortinat, Benjamin Renout
Andrew Wheeler
WEB EDITION
Maggie Simmons
PUBLISHING DIRECTOR
Toby Green
LOGO AND DESIGN
OECD Publishing
PRINTING
OECD Publishing



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# Opening plenary: Innovation, growth and equity

## Innovation's magic powder

- *MODERATOR:* **DAVID EADES,** PRESENTER, BBC WORLD
- **ANGEL GURRÍA,** SECRETARY-GENERAL, OECD
- **JORDI SEVILLA,** MINISTER OF PUBLIC ADMINISTRATION, SPAIN

*(Left to right):* **Angel Gurría and Jordi Sevilla**

"Globalisation scares those who fear it will change their way of life forever", said **David Eades**, but change is a goal worth achieving if it can lessen the disparities among world economies over time. One result of globalisation is that "the sense of inequality is perhaps greater than it has ever been", so the stakes were high for the Forum's discussions on innovation, growth and equity.

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**Jordi Sevilla** made an opening address to the Forum, a condensed version of which is set out below.

This OECD Forum centres on three essential themes which are particularly relevant nowadays, and are closely linked to each other: innovation, growth and equity. These are precisely the focal points of much of the action of the Spanish Government.

We believe that *innovation* is the best guarantee of progress in our country and the most effective way of increasing our levels of productivity and, for this reason, we have doubled public investment in this area over the last three years, reaching a total of EUR 6.5 billion in 2007.

*Economic growth* in Spain in recent years has registered an extraordinary and sustained rate, with control over inflation, record surpluses in public accounts and a gradual reduction in the unemployment rate, which is below the European average.

Spain has also undergone important *social progress*, as equity and equality of rights among all citizens has been one of the priority objectives of the socialist Government.

Innovation, growth and equity are therefore three essential aspects of our concerns, which are tackled from many angles, based on the need to have strong and efficient public administrations, capable of offering quality services to citizens. For this reason, we have implemented a reform process of our public administration; undoubtedly another priority of the Spanish Government.

Faced with the challenges of globalisation, we are aware that those countries with a well-prepared and efficient public administration are in the best position to turn these challenges into real opportunities for development.

On the other hand, weakness in the public sector feeds social instability by constantly reintroducing debate into the rules of the game. It also reduces the ability to implement public policies and turn them into tangible results and well-being for citizens.

One of the important achievements of the advocates of the public sector in recent times has been proving that an economic policy of sustained growth and a responsible fiscal policy are not at odds with social justice. Our belief in the public sector enables us to work with conviction to improve its efficiency and allow the public sector to increasingly offer services to citizens which meet the levels of quality demanded.

Over the past three years, we have taken important steps towards fulfilling this objective, by focusing our efforts on the reform of the model for the provision of public services, through the Law on Agencies, on one hand. With this change, we aim to introduce the concepts of flexibility, fulfilment of objectives and evaluation of results into the operation of our administrations.

On the other hand, we have tackled the reform of the public employment model through the Civil Service Basic Statute, which gives priority to the efficiency, qualifications and professionalism of employees.

And, finally, we are working towards the technological modernisation of the Spanish administration as one of the key elements in improving our services and ensuring equity in our regions.

For the first time in history, technologies offer all citizens the opportunity to access information under the same conditions and simultaneously. It is the responsibility of the public authorities to take advantage of these new opportunities.

In Spain, the political decentralisation process of the State has enabled the greater democratic proximity of the new regional and local powers, which is also translated into a greater proximity of the administrations to citizens. However, all of the barriers separating us have not yet been overcome, which is why the use of information and communication technologies may help us to overcome some of the obstacles in our path towards a public administration that is close to citizens, aware of real problems and open to participation.

The promotion of new technologies by the public authorities also represents a decisive factor for the development of our societies, as established in the conclusions of the European Council in Lisbon in 2000. As you know, the European Community promotion of the e-Europe initiative gives top priority to the development of electronic administration, within a programme which attempts to take advantage of all of the opportunities of new technologies, as a determining factor for the economic future of Europe.

During the years of the e-Europe initiative, the sphere of action in electronic administration has grown significantly. At the Manchester Summit in November 2005, which I was privileged to attend, a ministerial resolution with specific objectives for the development of electronic administration within the Union was approved.

Following this resolution, the i2010 Action Plan on electronic administration was approved. The annual saving that may be generated throughout the Union by its widespread implementation is estimated at EUR 50 billion.

Jordi Sevilla

The Spanish administration's promotion of technological modernisation has been reflected in growing investment in technical and economic resources. We are also committed to administrative simplification, by doing away with the need to present documents, which has led to a saving of more than 7.5 million documents a year. In addition, we are developing two key initiatives to facilitate the definitive implementation of electronic administration in our country: the electronic identity card and the 060 Network.

The electronic identity card, which began to be issued to citizens last year, offers a safe and dynamic personal identification instrument, providing confidence in online relations with the administration and in e-commerce. At the same time, we have been increasing the number of administration services that can be accessed online through electronic identification. More than 300 services are currently available.

The 060 Network consists of an infrastructure to access administration services (through Integral Offices, a single telephone line or an Internet portal) in which citizens may carry out procedures of any public administration.

Finally, we have given a definitive boost to the implementation of electronic administration in our country with the recent approval of the Law on Electronic Access of Citizens to Public Administrations, which recognises a new right of citizens: namely, that of dealing with the administrations online. An administration that is open 24 hours, 365 days a year, will be offered, in which all procedures and processes can be carried out from wherever each individual wishes.

We are convinced that this is the path to follow for European governments, because technology makes it possible for us to connect and makes our systems compatible so that a citizen can be identified in any country of the Union and may access Pan-European services.

I must stress the value of the public sector and the important role that the public administrations play in contributing to the use of new technologies as instruments promoting the equality and equity of our citizens and our regions.

The ideas and reflections that you are going to share in this Forum shall undoubtedly help


*(Left to right):* **David Eades, Angel Gurría and Jordi Sevilla**

us to outline this role. I encourage you in your work because I am convinced that between us all, we will find the best channels so that today's technological capacities help us to build a fairer and stronger society with possibilities of growth.

• • •

The following is a condensed version of OECD Secretary-General **Angel Gurría**'s opening remarks to the Forum.

The theme of this year's Forum, "Innovation, Growth and Equity", is a vital equation for a high-performing, more balanced globalisation. How to stimulate innovation for equitable growth and prosperity in our countries? This is the central question we must try to answer in the debates here. So let me say a few words on these points.

The global economy is now in its fifth consecutive year of growth. This is the strongest economic expansion since the early 1970's. Innovation and globalisation have been the main sources of this process. We are not sure how long this "golden age" will last, but one thing is certain: innovation will keep feeding the levels of prosperity of nations.

Improving innovation performance must be a constant top priority for decision-makers. Countries can achieve vigorous long-term growth if they become dynamic innovation platforms. Economies with reform-minded governments and innovative corporations are making the most of globalisation. Through promoting and strengthening innovation performance, countries become more competitive, more attractive for investment and more prepared to face the emerging economic, social and environmental challenges of globalisation.

Modern economies are built with ideas and knowledge, as much as with capital and labour. It is estimated that nearly half the US GDP, for example, is based on intellectual property. The EU has set the 'Barcelona target' of increasing research and development (R&D) to 3% of GDP by 2010 to become "the most competitive and dynamic knowledge-based economy in the world".

At the OECD we believe the creation, dissemination and application of knowledge will continue to be the main engine of national and global economic expansion for many years. And not only in the OECD. Last year, China spent more on R&D than Japan for the first time, becoming the world's second largest investor in R&D after the US.

There are three elements which are strategic to fostering innovation: accessible high-quality education; investment in science and technology; and an innovative business-oriented environment.

*Quality education* breeds innovation. A well-performing and accessible education system facilitates the adoption and diffusion of innovative activities. Investment in the education and training of highly skilled workers is a major factor of competitiveness, productivity and growth. But access to quality education is also the main driver for reducing economic inequalities.

The OECD has paid special attention to improving human capital, developing internationally standardised tools for the assessment of educational systems. The Programme for International Student Assessment (PISA) has become a key reference for the improvement of educational systems and achievements in member countries.

*Investment in science and technology* is also critical. One of the most eloquent indicators of the health and potential of a national economy is the level of R&D it generates. OECD countries have so far provided most of the world's R&D capacity, accounting for over 80% of global R&D expenditure.

R&D by all the OECD countries reached USD 729 billion in 2004, representing a 10% increase in relation to 2000 and 2.3% of the group's GDP. However, R&D average annual growth rates have been slowing down and many OECD countries have seen little improvement in productivity performance in recent years despite the new opportunities offered by globalisation and new information and communication technologies. We certainly have a challenge there.

*Improving the business environment* is especially important, as business is the main driver of innovation. When we see an economy as a living system, our perspective becomes one of how to provide the right environment. We must think more like gardeners than mechanics.

In some countries, further liberalisation of the services sector and of network industries could encourage innovation and productivity improvements. More innovation-friendly regulatory regimes, combined with flexible labour markets and lower barriers to trade and FDI, will enhance competition and foster the flow of technology and knowledge across borders. The reform of financial markets can also boost innovation and growth.

Intellectual property rights (IPR) pose another important challenge. Recent transformations in the economic context, not only globalisation but also the emergence of new technologies in software, the Internet and biotechnology, have facilitated collaboration among creators and inventors, but have also made it easier to copy and have thus challenged the effectiveness of the IPR system. The key policy question remains how to strike an appropriate balance between providing incentives and protection to innovators and providing access to new knowledge for users.

Addressing these challenges demands reforms which are not always easy to implement. The OECD's work on the political economy of reform is increasingly helping countries to make these reforms happen. But it will also require a concerted action by education institutions, R&D centres, the private sector and national and local governments. The OECD Forum provides an ideal platform to foster these strategic partnerships.

Innovation fosters productivity and growth because it attracts highly qualified people and capital, but also because innovation looks for a favourable and secure environment to invent, register patents, produce and sell. The majority of human beings live in countries which lack this attractive environment. We run a great risk if we do not change this pattern. If we do not take innovation, and therefore employment, to the people, the people will move to the innovation centres, legally or illegally.

A very eloquent example of how we can turn innovation into a development tool is the "One Laptop per Child" project. In this initiative, experts from both academia and industry designed an ultra low-cost and durable lap-top for the world's poorest children.

At the OECD, most of our committees and publications, on a wide variety of topics from education to environmental issues, from energy to employment and regional competitiveness, are impregnated with this "magic powder" of innovation.

The OECD is currently working on a proposal to develop an OECD Innovation Strategy. This area of work will contribute to our overall strategy to become the "hub" of a global dialogue on policy issues. This new Innovation Strategy would add to the existing body of OECD work on innovation, providing a cross-disciplinary package of policy elements and recommendations to boost innovation capacity and performance. This would include the identification of good policy practices and policy guidelines, as well as better metrics to identify and benchmark innovation performance. It would also provide analysis clarifying the links between innovation and entrepreneurship, economic growth, social progress and "global challenges" in domains such as environment and health.

Growth and economic prosperity can no longer be built on abundant reserves of unskilled, low-paid labour. In an age of competition and technological progress, the key to prosperity will come from a creative, qualified labour force that can produce knowledge-intensive ideas, goods and services in private companies that are able to innovate, to adopt the newest technologies and to sell the resulting goods and services all over the world.

Intellectual capital is the ultimate comparative advantage. To meet the multiple challenges of a constantly changing modern world, nothing is more productive than investment for innovation. Remember, "All it takes is one idea to solve an impossible problem".

• • •

In response to questions from the floor about improving the links between universities, the public sector and industry so that research results in innovative products and processes, Angel Gurría said this was a "missing link" in many cases. The only way to reap the reward of the billions of dollars being spent on research in public administrations, universities and business was to "go to market". The successful countries are those who co-operate, who are open to links between the three elements, and who divide the work up better. They get to market and are the big modernisers.

Jordi Sevilla said that educating and training enough scientists and researchers is also vital. Spain has witnessed great changes in the system in recent years, but there is great competition for scientists and researchers in Europe. There is a need for a "double strand" of work – there are sectoral problems, where one company may raise a problem that can be dealt with on a sectoral basis by all players, as the answer is needed for the whole sector, but there are also problems that may be specific to a single company and where that company can commission individual research. ■


**Angel Gurría on the screen**


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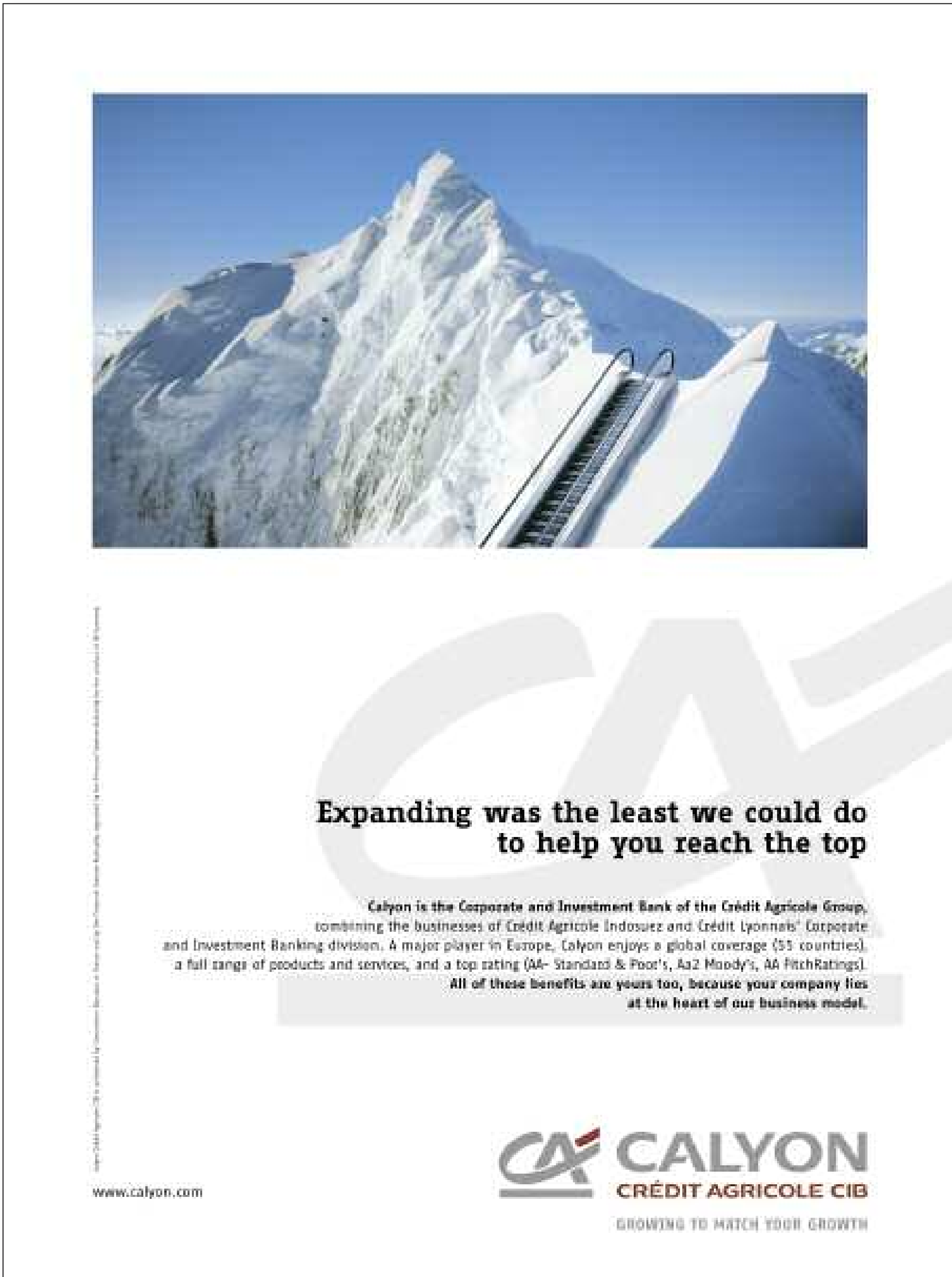
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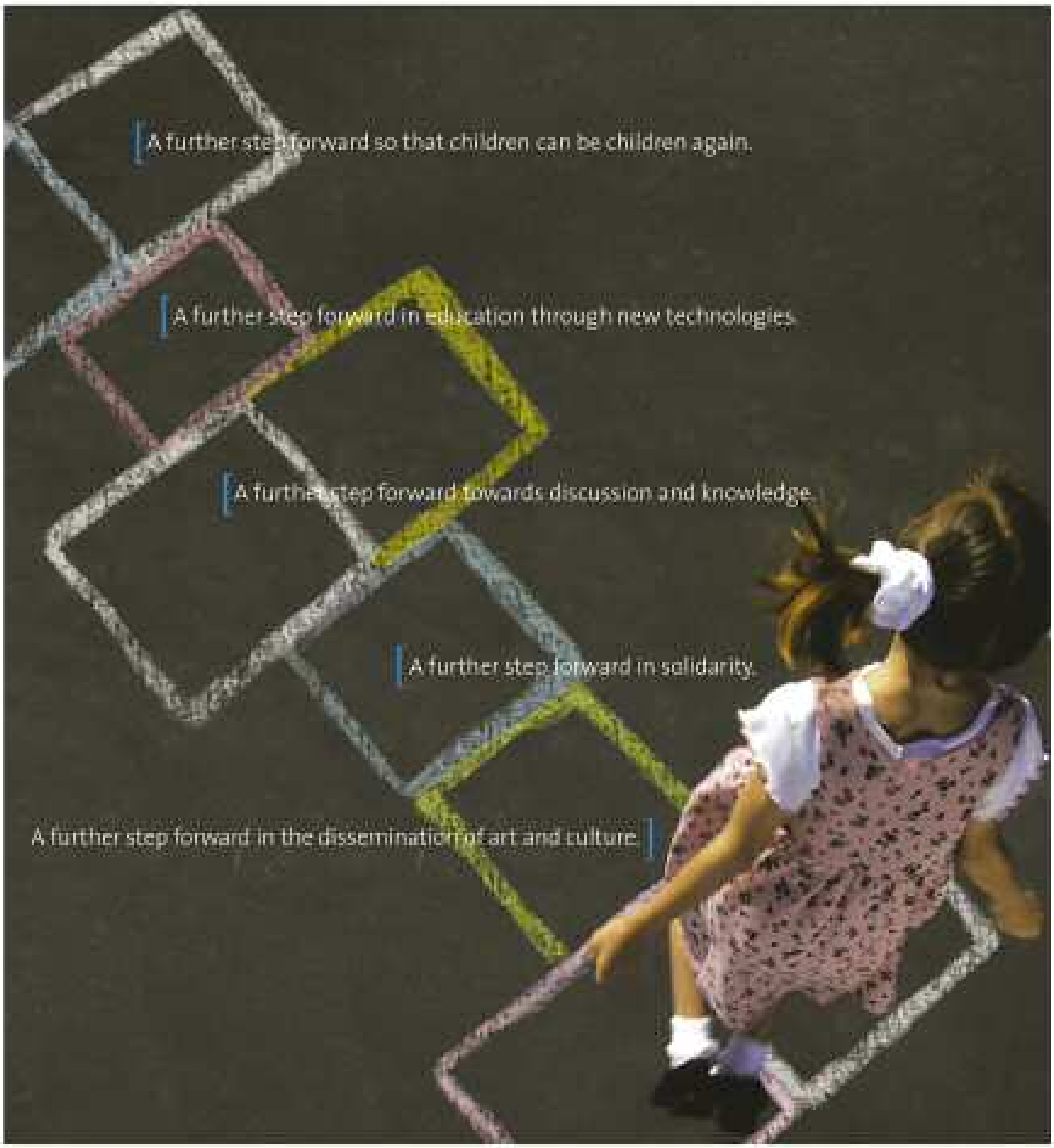


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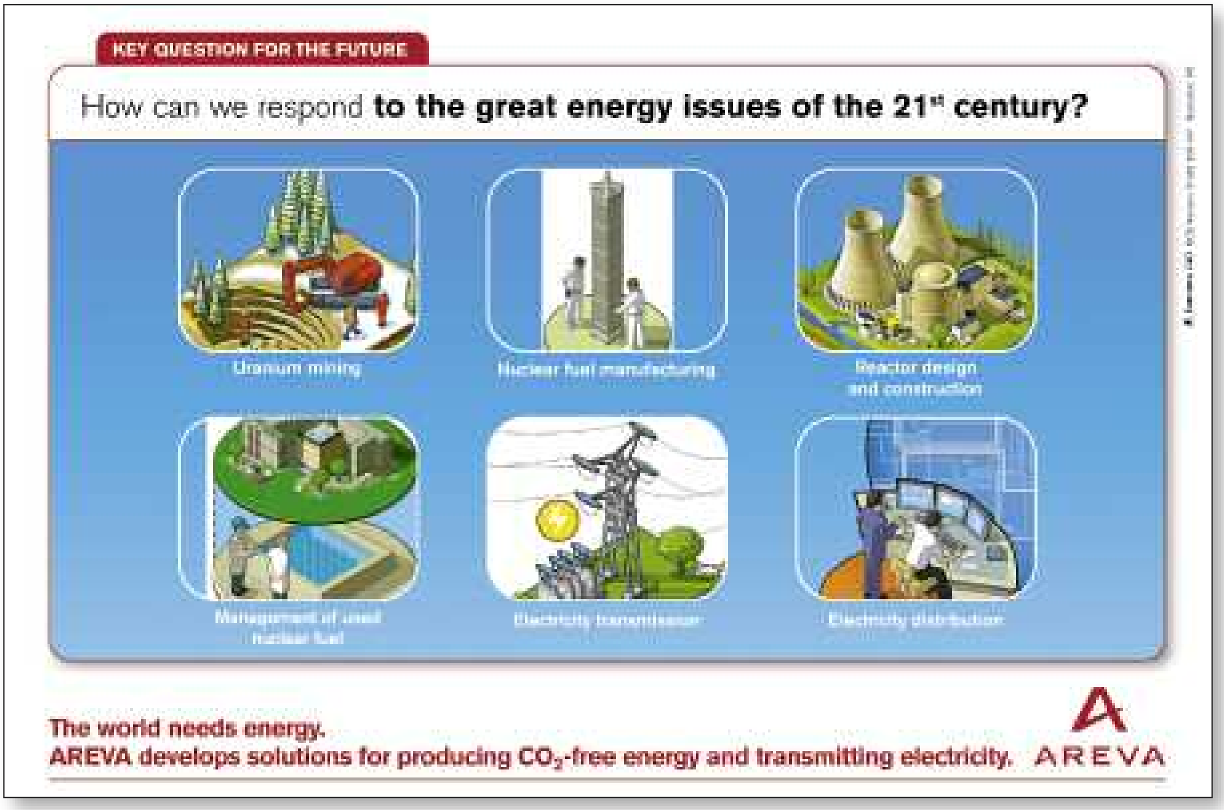
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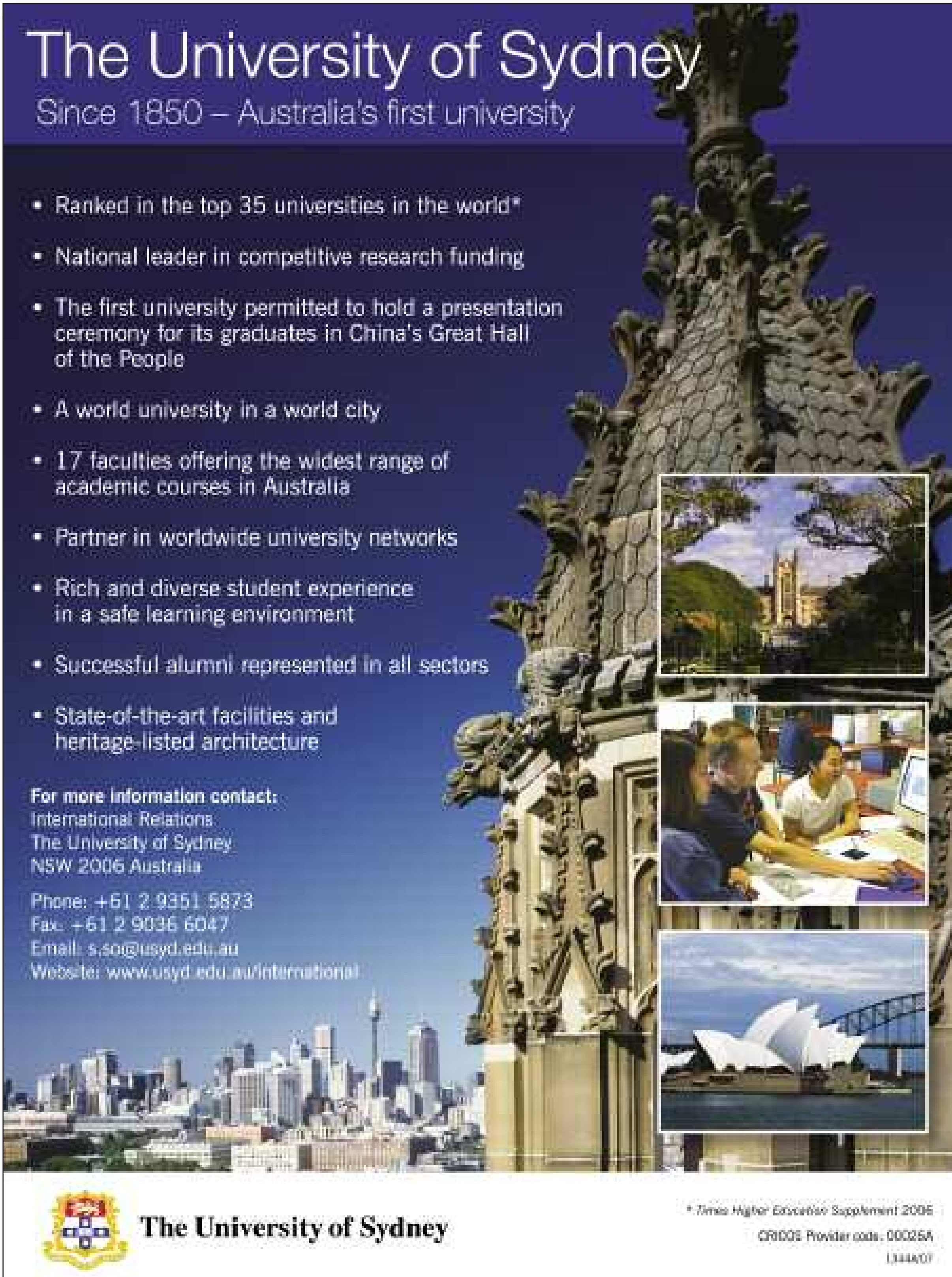
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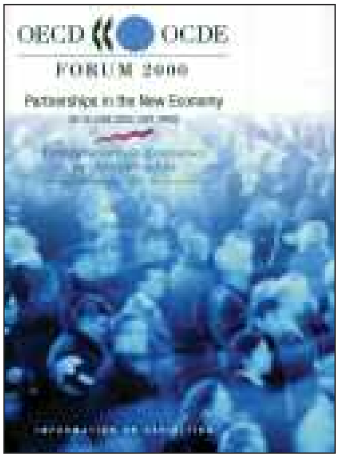


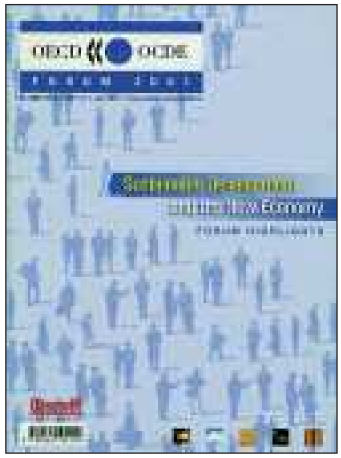



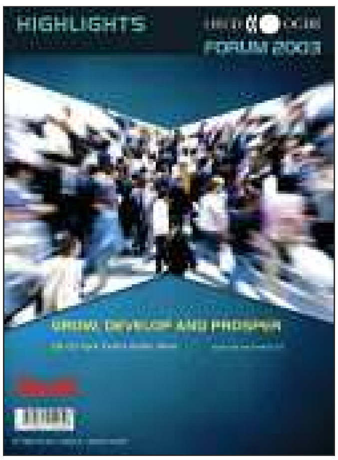


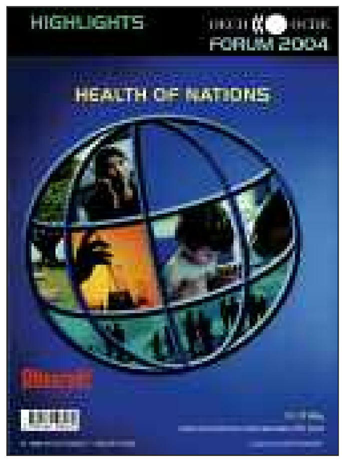


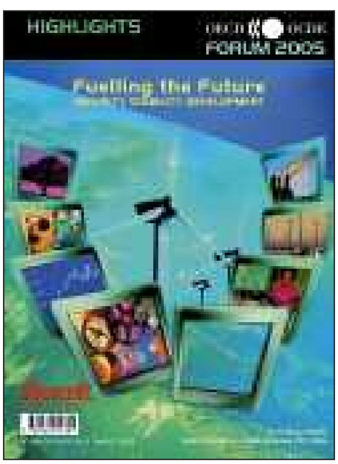


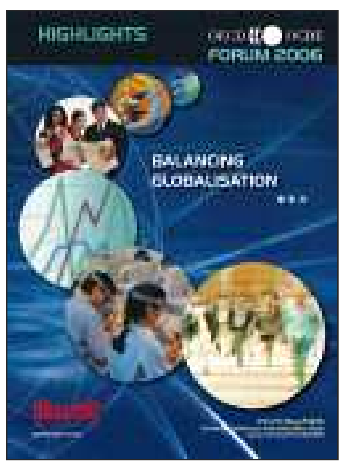


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# Water: How to manage a vital resource

## A source of co-operation

- *MODERATOR* : **DAVID EADES,** PRESENTER, BBC WORLD
- **ASIT K. BISWAS,** PRESIDENT, THIRD WORLD CENTRE FOR WATER MANAGEMENT
- **PETER BRABECK-LETMATHE,** CHAIRMAN OF THE BOARD AND CEO, NESTLÉ S.A.
- **ANGEL GURRÍA,** SECRETARY-GENERAL, OECD


**Asit K. Biswas on the screen**

Poor management, rather than scarcity, will be the cause of a possible water crisis – this was the main message from this Forum session. Scientific breakthroughs would help, but so would innovative policy thinking. Panellists agreed that water pricing could help avert a crisis, for instance.

The public attention devoted to water over the next 20 years will be greater than in the last 2000, according to **Asit K. Biswas**. We consume water as if the supply were inexhaustible, but while "there are substitutes for coal and petroleum", said **Peter Brabeck-Letmathe**, "there is no substitute for water".

Both agreed that if water problems are not solved, we are to blame for poor management. Most people worry about supplies of clean drinking water, but agriculture and industry claim a far larger share of water consumption worldwide. Agriculture accounts for most water use, but in the OECD area we consume thousands of litres of water a day without even realising it – the water used in food production, for instance.

Water is critical for development, and **Angel Gurría** launched a simple challenge: "Follow the water, and you will be able to solve the problem of poverty and other problems".

Angel Gurría said that resolving water problems could serve as a benchmark for determining the success of other policies such as poverty reduction.

Water is also a fantastic opportunity for economic growth through co-operation. In Bhutan, GDP per capita soared following a government decision to work with India on water-related technologies. The idea that competition for water will be a future ground for conflict is unjustified. Rather, it should prove to be the means for closer collaboration.

**Peter Brabeck-Letmathe**

New institutional global arrangements might also be explored, to focus action on improving drinking water and sanitation.

However, placing the problem in the hands of NGOs and governments may not be enough, Peter Brabeck-Letmathe said; education and individuals are important too. He cited a case in India, where a project for digging wells failed because the wells were spoiled after a few months. A new programme placed wells near schools where children were being taught about the importance of water. The children became the custodians of the well, drawing the water, carrying it home, and making sure it remained clean.

Water is too precious to waste but the average city may see as much as 15% of its water supply leak away because of decaying infrastructure and lax management, Asit K. Biswas said. But it need not be so. He described Singapore as an example of best practice in successful water management, losing only 5% of its water. One important


*(Left to right):* **Peter Brabeck-Letmathe and Angel Gurría**

factor is a willingness to recycle waste water. This poses a huge psychological barrier for many in the OECD area, but in Singapore the recycling plant is the country's third largest tourist attraction.

Peter Brabeck-Letmathe agreed that there is much room for improvement in water management, but to reduce water loss, innovation has to be introduced across the board from suppliers to consumers. This includes water distribution: on average, 25% to 30% of water in developed countries and up to 70% in developing countries was lost because of leakages.

The panel agreed that water should have a price, and that the assumption that most people would refuse to pay for water is unfounded. Free water, in fact, hurts the poorest, Asit K. Biswas said, because having a price facilitates distribution. At the same time, "water is a human right", Peter Brabeck-Letmathe said. He proposed giving 25 litres per person without charge, but said further consumption needed to be charged to solve the management problem.

"The reality is that water is a global challenge", Angel Gurría said. Access to water is one of the key development factors and provides a good overview of the development process. Although some forecast that three billion people would lack access to water within 30 years, he said this situation was "unacceptable, but also avoidable". The major challenge is to forge public-private partnerships to develop the right infrastructure and pricing to encourage responsible use.

The panel saw the main challenge for water-stressed developing countries as getting rid of bad governance and changing ageing institutional structures so that effective policies could be implemented.

Peter Brabeck-Letmathe agreed with a suggestion from the floor that users needed to be more closely involved in water management. "Most of the solutions are there, most of them demand grass-roots' involvement", he said, citing educational programmes in water management for children financed by Nestlé.

Another questioner raised the issue of co-ordinating public intervention to improve water management. Angel Gurría agreed with this and wanted to see a greater water-oriented focus in global institutions. He said we did not need another bureaucratic institution but co-operation could improve public management and the effectiveness of foreign aid dramatically. ■

*(Left to right):* **David Eades and Asit K. Biswas**

# Open markets and regulation for energy

## Fuel for thought

- *MODERATOR:*
  **LORD WATSON OF RICHMOND,**
  CHAIRMAN EUROPE,
  BURSON-MARSTELLER
- **ARTHUR DE MONTALEMBERT,**
  VICE-PRESIDENT, INTERNATIONAL
  AND MARKETING, AREVA, FRANCE
- **LIONEL FONTAGNÉ,**
  SCIENTIFIC ADVISER, CEPII, FRANCE
- **STEPHAN SINGER,**
  CLIMATE AND ENERGY EXPERT, WWF
- **PIOTR G. WOŹNIAK,**
  MINISTER OF ECONOMY, POLAND


*(Left to right):* **Alan Watson, Arthur de Montalembert and Lionel Fontagné**

**Alan Watson** set the tone of the debate with a quote from the Stern report: "Climate change is the greatest failure of the markets". In this context, he asked, how should climate change be addressed, and in what framework? What is the role of firms and government? He said companies must respond appropriately, as there is "a lot of money to be made out of climate change in the decades ahead". Governments meanwhile must decide whether there is still a role for national energy policies or whether a supranational framework is now more relevant.

**Arthur de Montalembert** said that the fight against climate change will deeply impact energy markets. He explained that his company, AREVA, is already addressing this challenge by providing low $C0_2$-energy solutions like nuclear and investing in renewable energies such as biomass. One of the biggest challenges now facing the energy sector is the need to build a new infrastructure that can guarantee security of supply and combat climate change. Arthur de Montalembert referred to the International Energy Agency assessment of these estimations, valued at USD 11 billion by 2030: "We have an investment window of opportunity now. Investments made today will be with us until well into this century". He also called for a combination of "the best that the market can offer in terms of efficiency with the oversight of government policies and regulation". Access to new energy sources should be increased by opening borders to international investment; by harmonising international licensing requirements for the building of energy infrastructures (windmills, nuclear power plant); and by expanding the use of long-term contracts in order to enhance predictability for both energy companies and states. Arthur de Montalembert also stressed the need for a "pragmatic" energy mix, including nuclear energy. He rejected the idea that nuclear power is not economically competitive. "If this were the case, nuclear power would be dead by now."

**Lionel Fontagné** presented a comprehensive overview of the challenges and uncertainties facing the energy sector today: fossil fuels are depleting, with the world's gas and oil reserves likely to last for 50 to 70 years at most, while energy demand is increasing by 1.6% a year and will inevitably clash with environmental constraints. Supply is also insecure, with over 85% coming from ten countries, often with unstable political regimes. Moreover, as energy is not produced but extracted, it generates a rent, which is often not used for development but fosters corruption and even terrorism. "The market will not be enough on its own; there is need for regulation", he said. The existence of a very large scale and network economies in the energy sector also underlines the real need for a supranational regulator, possibly at a European level. Europe must "speak with one voice"; taxation schemes should be made more environmentally friendly; energy sources must be secured and diversified, as European firms face the constraints of the Kyoto Protocol. Europe might even consider the possibility of taxing imports from countries who do not respect this Protocol.

**Stephan Singer** said what we need is a "Global Energy Marshall Plan" in response to climate change, and proposed the construction of a huge offshore network of windmills along Europe's western seaboard. Countries must establish a clear hierarchy of priorities, he argued: "Security of supply is only a subset of climate change". If we want to limit global warming to 2°C, greenhouse gas emissions need to be reduced by 50% by 2100. If the rich world is to accommodate the poorer world's legitimate right to develop, then OECD countries must shoulder most of the burden of this reduction and reduce their emissions by 80%. "Of course, there is a cost of combating climate change … but the cost is 20 times smaller than that of the effects of global warming." Stephan Singer spoke of the current shift in investment focus and the fact that "coal is back as a fuel of choice": we must therefore address the issue of carbon capture and storage, coupled with measures to increase energy efficiency in order to reduce demand, and control the environmental effects.

Piotr G. Woźniak

**Piotr G. Woźniak** urged the audience to listen carefully to what energy suppliers say about themselves, and particularly to Russia, whose strategic energy plan contains explicit political objectives that require support for Russian foreign policy from countries that buy its gas. Poland recently endured harsh energy restrictions because of supply cuts from Russia, for example, and has since decided to be less dependent on outside supply and to put an emphasis on "safety and security first". "I am from a country where coal is king and hopefully we will keep that king on its throne". Indeed, Piotr G. Woźniak pointed out that coal burning and carbon capture are now cheaper than the lowest cost nuclear technology. Nonetheless, Piotr G. Woźniak defended the need to create a new international agency in order to regulate the energy market, and urged OECD countries to take measures to prevent gas producers from setting up a cartel. ■

*(Left to right):* **Arthur de Montalembert, Lionel Fontagné, Stephan Singer and Piotr G. Woźniak**

# Making reform happen

## Leadership, consensus and timing

- *MODERATOR:* **AART JAN DE GEUS,** DEPUTY SECRETARY-GENERAL, OECD
- **TINE AURVIG-HUGGENBERGER,** VICE-PRESIDENT, DANISH CONFEDERATION OF TRADE UNIONS
- **PHILIPPE MANIÈRE,** DIRECTOR-GENERAL, INSTITUT MONTAIGNE, FRANCE
- **GIL RÉMILLARD,** CHAIRMAN AND FOUNDER, INTERNATIONAL ECONOMIC FORUM OF THE AMERICAS/CONFERENCE OF MONTREAL, CANADA


***(Left to right):*** **Tine Aurvig-Huggenberger and Aart Jan de Geus**

The OECD countries have made considerable progress in structural reform in the past two decades, from lowering barriers to international trade and foreign direct investment to financial market liberalisation. But more needs to be done, panellists said.

Historically, major reforms have been forced on governments by crises, when there was widespread acceptance that reform was essential. More recently, the problem has been securing a consensus in favour of reform in more normal circumstances. This is what the political economy of reform is about.

**Aart Jan de Geus** opened the discussion by reviewing the experience of his own country, the Netherlands. He discussed the problems of reforming the early retirement and disability benefits systems, both of which were conducted successfully. It was not enough to know what was needed, he said, the difficult part was achieving widespread acceptance of change: the government had to win public support to stay in office long enough to make the reforms work.

**Tine Aurvig-Huggenberger** remarked that "Paris is the city of light, but the French government appears to have been stumbling into darkness" in the area of reform. French leaders have even travelled to Denmark to study its "flexicurity" system, but Tine Aurvig-Huggenberger felt they had missed the point. Flexicurity works, she said, because it is accepted by all of the social partners. It involves reducing job protection, but has been acceptable to the unions because it has pushed unemployment down. There are no onerous social security contributions to discourage job growth, and unemployment benefits are generous. Moreover, adult education and retraining schemes are provided to try and get people back to work as quickly as possible. Europe needs reforms that combine security for individuals with an adaptable labour market, along with adequate financing for education and retraining. Denmark's flexicurity system works because it provides these elements. In addition, the system benefits from the long national tradition of co-operation between the social partners.

**Philippe Manière** said you have to consider three key points in order to reform. Firstly, you

Gil Rémillard

need to know what you want to do, and do it in a fair way. You should carry out needed reform, but not “reform and shake people up for the sake of it”. A second point is to “sell your plan smartly”. Acting unexpectedly can be a good idea, as long as people eventually feel that you have remained consistent with your underlying policies. The third point is to win public support. “French people tend to think that if you get the support of Parliament, you make it: but that is the easy part!” Above all, you have to encourage people to change their behaviour and to embrace the reform goals as their own. Philippe Manière identified three ideas to underpin reform: common sense, ambition and patience.

**Gil Rémillard** cited five conditions to make reform a success. Firstly, reformers should thoroughly understand the reform they want to implement – what needs to be reformed, how the process will be conducted and how the reform will benefit citizens. Secondly, they must demonstrate determination to implement the reform. This requires strong leadership and clarity and coherence in what is done. Thirdly, they need a carefully chosen team combining reputable experts and people of conviction who are well respected in their field. With these people in place, you will be able to meet the fourth requirement – to set a dynamic and realistic plan in motion. “You should never improvise a reform; the only thing you can do is adjust it”, Gil Rémillard said.

Finally, you have to develop an internal and external communication plan designed to involve managers and employees and demonstrate transparency and responsibility. Gil Rémillard linked the success of reform to three keywords: leadership, consensus and timing.

The other speakers generally agreed with this view. However, Aart Jan de Geus added that if you wait until everybody is convinced, you have probably gone too slowly. Gil Rémillard reminded the audience that “consensus does not mean unanimity”, while Philippe Manière agreed: “At a certain point, a reform has been explained enough and you have to act”.

A questioner from the floor asked how much the success of Denmark’s labour market reforms had depended on the support of the social partners. Tine Aurvig-Huggenberger responded that being a small country with a homogenous population and a 100-year history of tripartite consensus had clearly helped.

Other participants questioned the need for consensus-building at all, since an elected government had a mandate to carry out reforms promised in their manifesto, and wondered whether in some areas, such as global warming, we could afford the time it would take to build a global consensus on necessary changes.

Summing up, Aart Jan de Geus noted that in the Dutch experience, recognition that change was necessary in the national interest helped to swing opinion quickly behind reform efforts. Although it was important not to go too fast, he said, it was not always possible to wait for 100% agreement: sometimes governments have to govern, which means making a decision, and then taking on the debate afterwards. ■

Philippe Manière


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# Innovation, growth and equity

*Pedro Solbes, Deputy Prime Minister and Minister of Finance, Spain*

OECD Deputy Secretary-General **Aart Jan de Geus** introduced Pedro Solbes. In his opening remarks he pointed to Spain's achievements in terms of economic growth, job creation and fiscal management over the past decade. "It still faces challenges to improve productivity and innovation, but it is clearly on the right track", he said. He then spoke of a new Spain, one that is active in the global economy, with competitive international businesses and expanding global integration.

• • •

**Pedro Solbes** made an opening address to the Forum, and his speech is set out below.

"It is a pleasure to address this forum, where you have been discussing the topics of innovation, growth and equity throughout Monday.

Innovation, like trade, has a great capacity to contribute to prosperity. It is the economy's great engine of "creative destruction" and is absolutely essential in order to continue to increase our living standards. Economists have long recognised this, even if it only became formalised with "endogenous growth" models in the last 25 years. So much so that promoting innovation is one of the very few areas in which there is general agreement among economists that government has a role to play. It is therefore imperative to have an economic environment which fosters entrepreneurship generally (which is the breeding ground for innovation) and innovation specifically.

**Pedro Solbes**

But, as we know since at least the late eighteenth century, innovation can also generate notable social dislocation. New products displace old ones, new ways of producing substitute old ways. This can have a substantial social impact: first, at the company level, as old companies disappear or are forced to downsize; but also, at the local or regional level: specific sectors tend to concentrate in specific areas, so that sectoral shocks tend to rapidly become local or even regional shocks, creating disruption in the different communities. Ultimately, of course, the relevant impact is borne by families, who are faced with income losses, the need to emigrate or extensively retrain, and general changes, sometimes of a drastic nature, in their way of life. More social inequality can be one of the end results of all this.

Pedro Solbes

This creates two problems: on one hand, material prosperity is not the only factor with an influence on social welfare, other factors – such as social stability – also play a part in it. As politicians, we have to take both into account, always bearing in mind that the benefits of innovation are permanent while most of the social costs are purely temporary. As minister of economy and finance, my specific role is obviously to promote change and try to counter the usual resistance to it in society.

The second, probably more important, problem is that the fear of social dislocation can ultimately deter innovation or economic progress. The first waves of industrial innovation led to social unrest and the destruction of textile machinery by Luddites, as workers, bereft of voting rights, violently expressed their anxiety over technological changes. Nowadays, this frustration is fortunately channelled through the political system. But, nonetheless, an electorate wary of technological advances means a higher likelihood that the political system will end up generating obstacles to innovation or entrepreneurial activity.

Therefore, it falls to us politicians to deal with these two partially contradictory objectives and try to find a positive result for society as a whole. An outcome which defuses the inevitable tensions that innovation may generate by assisting displaced workers and helping them retrain, or by means of a redistributive policy which attenuates the possible effects of economic change on equity. An outcome which thus helps innovation along by making society more favourably disposed towards it.

*(Left to right):* **Aart Jan de Geus and Pedro Solbes**

But politicians can be aided in this pursuit by social agents, trade unions and business organisations. In Spain we have consolidated a model of "social concertation" in which labour and business representatives are recognised as having a key role in social and economic reforms. They have shown a great degree of understanding and willingness to come to agreements, and that has helped to smooth many of these reforms, which have been very beneficial to Spain but are sometimes painful in the short term.

In political terms, trade unions and business internalise many of the conflicting interests that economic change generates, and are therefore well-positioned to participate in the decision-making process, which, of course, does not discharge the government of its obligations. It is the government who has ultimate responsibility before the citizens and is accountable to them. And in some instances there are relevant interests besides those of workers and businesses, particularly those of non-corporate taxpayers, which have to be taken into account. But the "social concertation" model has generally worked very well: labour relations in Spain have been peaceful for the last few years and labour and business organisations have generally had a very constructive role in the reform efforts of past governments.

We recognise that this is not necessarily a model for all countries, for a variety of reasons. But it has undoubtedly been a key component of Spain's relative economic success in recent years.

In the end, the objective is, with the appropriate nuances, the same in all countries: when confronting economic change, help tide the affected agents over its negative side effects so that great disruption and political resistance to change is avoided, and thus ensure that society as a whole can enjoy the long-term benefits of innovation. In other words, our goal should be to smooth out the rough edges of the "creative destruction" process, so that the creative part is maximised while the consequences of destruction are tempered. I believe that this will be a key political economy issue in the future, and hope that governments and social partners will be successful in dealing with it".

• • •

A participant asked Pedro Solbes to comment on the international trend to reduce corporate taxes and the potential "race to the bottom" which could result from competition to attract investment. Pedro Solbes replied that any solution to this must be sought at a European level. That is to say within the context of the EU where there is a common willingness to avoid tax fraud and suppress unfair practices. ■

**Aart Jan de Geus**

**Pedro Solbes**

# Innovation, intellectual property and investment

## Protecting an innovative future

- *MODERATOR:* **TSUYOSHI NAKAI,** DIRECTOR-GENERAL, JETRO PARIS, EUROPEAN COORDINATION CENTER
- **AKIRA AMARI,** MINISTER OF ECONOMY, TRADE AND INDUSTRY, JAPAN
- **NANI BECCALLI-FALCO,** CEO, GE INTERNATIONAL, BELGIUM
- **PIER LUIGI BERSANI,** MINISTER FOR ECONOMIC DEVELOPMENT, ITALY
- **FRANCIS MER,** CHAIRMAN OF THE SUPERVISORY BOARD, SAFRAN

***(Left to right):*** **Pier Luigi Bersani and Akira Amari**

Openness and protection are both key aspects of innovation, the audience heard at this keynote panel entitled "Innovation, Intellectual Property and Investment".

**Nani Beccalli-Falco** summed up the high stakes involved with a simple question: How would you like to fly in a plane fitted with "fake" spare parts that have not undergone the rigorous testing of the real branded item? But at the same time, he noted that excessive protection of intellectual property rights (IPR), for example in pharmaceuticals, could risk preventing much-needed benefits from reaching millions of people.

**Akira Amari** said that for innovation to result in economic growth, you needed to develop an innovation-friendly business environment symbolized by the "three I's" – Promoting *Innovation*; appropriate *IPR* protection that encourages greater commercialisation of the fruits of innovation; and a more attractive *Investment* environment to engage key players in the global economy. Akira Amari also stressed that innovation is essential to meet major global challenges such as climate change. But technology is not enough; we also need a shift in mindset to create a new "eco-innovation" system where environmental concerns and business development are heading in the same direction. He cited Japan's use of technological innovation and civic awareness to boost energy efficiency in response to the oil crisis of the 1970s, and to remain energy efficient since then, with innovations such as hybrid cars. Akira Amari proposed developing a roadmap to build an eco-innovation system by collecting success stories from the principal industrialised countries, including Japan. Akira Amari also explained Japan's efforts to promote efficient use of domestic intellectual property rights for small and medium-sized companies, expressing confidence in the OECD to provide guidance on this issue.

**Francis Mer** identified two major issues that stand to benefit from improved co-ordination of global innovation: climate change and population ageing. He warned that the long-term consequences of these phenomena are likely to prove very serious unless concrete action is taken today, but that innovation provides "a key to our collective success".

Such innovation must be co-ordinated among governments and between public and private sectors, Francis Mer said, underscoring his point that "it is indispensable to make progress together". Education is essential to cultivating this human potential for innovation. Francis Mer also stressed the importance of civic responsibility for encouraging innovative solutions through education and action.

According to **Pier Luigi Bersani**, growing firm mobility is increasing demand for environments favourable to investment. "We need a new culture of innovation", he stated, proposing a citizen-driven evolution which would take cues from enterprises, universities and citizen groups. Governments can play a role in ensuring that "innovation is not a monopoly" through deregulation and improved international co-operation. Citing Italy as an example, the minister highlighted

Tsuyoshi Nakai

the potential for reforms to open new markets for innovation, as well as the need for strong intellectual property right protection.

Italy's existing bilateral agreements on counterfeiting and IPR strengthen this point, Pier Luigi Bersani said, although he also called for restraint in intellectual property restrictions, warning that "extreme" protection may in the end inhibit diffusion of innovation by leading to wariness of costly patent and license litigation.

Nani Beccalli-Falco

**Nani Beccalli-Falco** presented what he described as a "critical link between liquidity and intellectual property rights", claiming "there is more cash in the world than there are good ideas to be employed". Liquidity and investment breeds innovation, he argued, but must go hand in hand with a system of IPR protection for innovation to be sustainable. In the long term, innovation is not only essential for economic growth, but a crucial way for Europe to remain competitive in the face of China's strong investment levels in technology. One way to encourage innovation, Nani Beccalli-Falco suggested, is to help small and medium-sized enterprises bridge the gap between patents and production. Excessive protection can hinder this transition, he said, mentioning generic drugs as a classic case.

Interventions from the floor questioned whether the century-old patent system needed modernising, and whether current IPR rules were hampering development by preventing technology transfer, or patenting new strains of rice, for example.

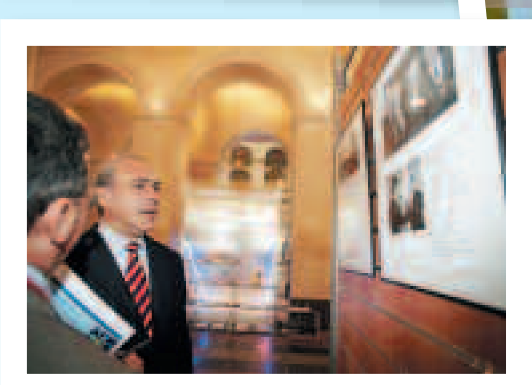
Several speakers called for open-minded and creative approaches to finding a balance between the protection of intellectual property and the provision of incentives for investment in innovation.

Francis Mer agreed that not enough attention had been paid to the question of the relationship between IPR and development. Not enough work has been done on how to create conditions that give business the minimum incentive needed to carry out research and develop new ideas, while not hampering development, he said.

**Tsuyoshi Nakai** summed up the session by underlining that globalisation had brought a number of challenges to centre stage. Problems such as climate change and increasingly skewed income distribution could only be solved though innovation. Promoting innovation requires supporting public and private research, investing in education and lifelong learning, and liberalisation of industrial markets. It also requires finding a better balance between promoting technology diffusion and protection of IPRs. ■

Francis Mer

## Snapshots from OECD Forum 2007

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# Energy security

## Current realities

- *MODERATOR:* **PETER KEMP,** EDITORIAL DIRECTOR, ENERGY INTELLIGENCE
- **THIERRY DESMAREST,** CHAIRMAN, TOTAL
- **FRÉDÉRIC JENNY,** JUDGE, COUR DE CASSATION, FRANCE
- **STANLEY REED,** LONDON BUREAU CHIEF, *BUSINESSWEEK,* UNITED STATES
- **DAIGEE SHAW,** PRESIDENT, CHUNG-HUA INSTITUTION FOR ECONOMIC RESEARCH, CHINESE TAIPEI

Thierry Desmarest

Energy security is a crucial issue for all countries, participants said. Worldwide demand for oil and gas is growing steadily but global production is difficult to maintain at even its current level. Participants focused mainly on production issues, while questions from the public centred on growing worldwide energy demand.

Concerns about energy security are really concerns over "energy insecurity", according to **Peter Kemp**. There are serious concerns over growing energy needs, ruptures in supply due to the increasing physical distances from energy sources, nationalisation and political instability. Moreover, oil and gas production cannot keep pace with the rise in demand – for each barrel of oil added to international oil reserves, three are consumed. International Energy Agency figures estimate that oil consumption will rise from the current 87 million barrels a day to 116 million by 2030.

**Stanley Reed** emphasised the difficulties experienced by producing countries. In Saudi Arabia, increased production is limited not by lack of oil but by lack of qualified personnel and technology. In Brunei, one may have to wait up to a year for a new drilling pipe. The recent trend toward nationalisation is a cloud on the horizon. With the current high price of oil, many oil producing countries are eager to renegotiate the terms of contracts with foreign companies. These governments may roll back contracts granted to foreign operators, which threatens production. Countries like Iran and Venezuela are already experiencing a drop in production levels because of crippled development. Stanley Reed feared that Russia too might soon succumb to this "oil nationalism".

**Thierry Desmarest** insisted on the crucial role of private actors. The five major oil companies today account for 12% of production and 25% of the funds invested to develop new exploration and extraction techniques. "Private companies are the only players able to develop the exploitation of the most challenging oil fields such as oil sand in Canada or oil fields in deep sea. They are the only ones who know how to exploit those fields in a profitable


*(Left to right):* Stanley Reed and Daigee Shaw

way." The high price of crude oil makes it attractive for major players to invest in these unconventional oil reserves.

**Frédéric Jenny** pointed out that market mechanisms are also a key factor in energy security, and could help close the gap between supply and demand. In the UK, for example, a 5% decrease in national gas production led to higher prices on the local market, and a fall in domestic demand. But a sudden temporary drop in production in Sweden had no automatic effect on domestic demand, because the Swedes are used to paying their gas bill on a yearly basis, so did not immediately see the price difference. Frédéric Jenny said that diversity is also vital for energy security, and diversity could only be ensured if there were no monopoly on the electricity market, gas distribution and transport infrastructure.

Finally, **Daigee Shaw** evoked renewable energies as a solution to energy shortages and a way to limit $CO_2$ emissions. However, he warned against becoming over-enthusiastic and stressed the need to select renewables carefully. Biofuels were not the answer, he said – producing bio-diesel from palm oil, for example, emitted ten times more carbon into the atmosphere than oil production. Challenged by a question from the floor to name a useful renewable, Daigee Shaw cited hydro which had been used successfully for years.

Questions from the floor asked for concrete proposals, particularly in the area of energy demand and consumption, and asked who would pay to bring about increased energy efficiency?

*(Left to right):* **Thierry Desmarest and Frédéric Jenny**

Thierry Desmarest said we needed both to diversify energy sources and to make efforts worldwide on energy saving. France has already made great progress on climate change, for example, but there is still huge potential for increased energy efficiency in areas such as building homes and offices. Technology transfer could also help in fast-developing countries in Asia. He also said that his company is already integrating the estimated climate change cost when calculating investment costs.

Frédéric Jenny said that one way to reduce demand and spur needed innovation in the energy sphere is to have a more transparent and responsive market system with prices that send signals – the airline industry, for example, has already improved fuel efficiency in response to high oil prices. ■

**Peter Kemp**

**Daigee Shaw**

# Innovation for growth and competitiveness

## Towards smart institutions

- *MODERATOR:* **JOHN GAPPER,** ASSOCIATE EDITOR, *FINANCIAL TIMES*
- **JOHN DRYDEN,** DEPUTY DIRECTOR, SCIENCE, TECHNOLOGY AND INDUSTRY, OECD
- **PIERRE LIAUTAUD,** VICE-PRESIDENT, WESTERN EUROPE REGION, MICROSOFT EMEA
- **STEFAN OSCHMANN,** PRESIDENT, EMAC, MERCK
- **BERNARD RAMANANTSOA,** DEAN, HEC, FRANCE
- **LENA WESTERLUND,** SENIOR INTERNATIONAL ECONOMIST, SWEDISH TRADE UNION CONFEDERATION


*(Left to right):* **John Dryden and Pierre Liautaud**

Innovation is something that affects the whole of society and that everybody wants more of, noted **John Gapper**, although it may mean change or disruption. In Europe, the will to innovate comes from two sources: envy of US economic success, and the fear of countries such as China or India, which can produce the same products cheaper and faster. So how can innovation be stimulated, and by whom – government, the market, or the public and private sectors working together?

**Bernard Ramanantsoa** argued that in a context of globalisation, competitiveness is always relative, so we must accept that there are both winners and losers. While society has a duty to take care of the losers, it must also focus on promoting success through innovation. He highlighted two key success factors for European countries: innovation in products and processes, and entrepreneurship. But there are real difficulties in finding true entrepreneurs. Students from even the best business schools choose the security and high wages of jobs with banks and multinationals rather than expose themselves to the risks of setting up on their own.

Bernard Ramanantsoa also cited the importance for academic institutions of being international – "which means attracting the best teachers, the best students, and working with the best firms" – and investing massively in research. Society must strive to protect education and to ensure equal access to the top universities.

Speaking as both an industry leader and as a father of five children, **Pierre Liautaud** said he saw innovation not only in terms of technology improvement and a key to economic growth, but also as a way to guarantee a sustainable future. Microsoft is particularly interested in the benefits of innovation because it works with many middle-sized companies which rely on innovation. It seems essential to provide those companies with both capacity and "intangible assets": information and knowledge. He highlighted two opportunities for European innovation and capacity improvement. First, public-private partnership with more funding of research and development (R&D), and second, partnership between institutions. Intellectual property should be considered "an incentive system", whereby innovators should obtain a return on investment. Europe should develop a pro-intellectual property

**Stefan Oschmann**


*(Left to right):* **Bernard Ramanantsoa and Lena Westerlund**

policy, Pierre Liautaud said, to simplify the procedures for patents, and fight piracy.

**John Dryden** defined innovation as the introduction of new products, processes and business models. Globalisation and the advance of technologies such as information, and bio- and nano- technologies have increased the importance of innovation, he said. So how can OECD countries improve innovation performance? One key factor is to focus on innovation in the services sector, which now accounts for 70% of economic output. Investment has become much more focused on intangibles, mainly R&D, software, education and intellectual property rights. Finally, John Dryden argued, innovation will help face major challenges such as climate change, energy, and healthcare. This is why the OECD was rolling out a broad innovation strategy. On the input side, there should be more investment in R&D; on the demand side, governments should foster the open environments for innovative products and help create an "innovation-friendly business environment".

**Stefan Oschmann** called for a more innovation-friendly market for healthcare in Europe. He noted that while EU governments encourage health research, they are also tightening healthcare budgets, limit revenues for new pharmaceutical products, and impose anti-competitive measures that hamper innovation. He praised the EU's regulatory system that enabled harmonized marketing authorization and allowed centralised drug approval for all EU countries. But compared with the United States, the EU market remains fragmented due to a variety of national cost-containment measures, which slows down the introduction of new drugs and creates unequal access to innovative therapies for European patients. While companies need to offer value for money and governments have to balance access and affordability, this ought not to be at the expense of innovation.

**Lena Westerlund** challenged the idea that highly competitive economies are necessarily unequal, noting that "several countries, such as Denmark and Sweden, with low wage inequality, high taxes and strong collective bargaining are frequently on the world's top competitiveness list".

Lena Westerlund also highlighted the relationship between income inequality and education: some of the countries that have the best education systems also show reduced social inequalities. Innovation is part of the equation. There is a strong need to create a culture of innovation: governments cannot change attitudes, but they can foster innovation by correcting market failures. In particular, they can create a security net for people who take risks, such as venture capitalists.

Responding to a question from the floor about patents and access to life-saving drugs in developing countries, Stefan Oschmann said that patents were important as companies needed an incentive to recoup their research costs and make some profit. But most companies make products such as HIV treatments available at no-profit prices in the least developed markets. ■


*(Left to right):* **Pierre Liautaud, Stefan Oschmann and Bernard Ramanantsoa**

# Globalisation and equity

## Whose equity comes first?

- *MODERATOR:* **MARTINE DURAND,** DEPUTY DIRECTOR, EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS, OECD
- **JUAN PABLO DE LAIGLESIA,** SECRETARY-GENERAL, SPANISH AGENCY FOR INTERNATIONAL COOPERATION
- **MARTIN HIRSCH,** PRESIDENT, EMMAÜS, FRANCE
- **JOHN ROTHER,** GROUP EXECUTIVE OFFICER, POLICY AND STRATEGY, AARP
- **JOHN J. SWEENEY,** PRESIDENT, AMERICAN FEDERATION OF LABOR-CONGRESS OF INDUSTRIAL ORGANIZATIONS

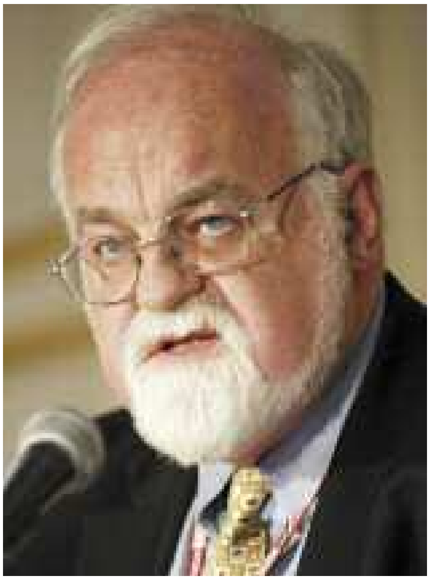

**Juan Pablo de Laiglesia**

The ambivalent effects of globalisation served as a starting point for this session. Statistical evidence points to the role of globalisation in raising living standards, encouraging investment and alleviating poverty, participants noted. However, there is a growing feeling that these gains are not being equally shared, and that the globalisation process involves painful changes that need to be addressed.

**Martin Hirsch** provided an interesting insight from a non-governmental organisation. He pointed out that associations like his own find themselves in an apparently paradoxical situation: creating new jobs in the developing world goes against the interests of low-skilled people in rich countries, whom his organisation represents. He said one answer to these conflicting interests might be found in conducting small-scale experiments into schemes that could provide employment for low-skilled individuals who might otherwise be claiming benefits, with a view to expanding these, if successful, to a wider scale.

**Juan Pablo de Laiglesia** was more concerned with international co-operation and development aid. While underlining the positive consequences of recent decisions in this area by OECD countries, he emphasised that there has not been an increase in total resources devoted to development aid. A greater focus on the poorest countries has led to the neglect of middle-income countries, which represent 41% of the world's population. These countries may have reached a certain level of wealth and political stability, but this is precisely why their continued development is essential. They could serve as motors, as models for poorer countries and as partners in the context of "horizontal co-operation", but to do so, they still need help in their own development. Juan Pablo de Laiglesia defined three aims that should be pursued: building stronger institutions that are able to create social cohesion and fight corruption; establishing fiscal policies that will provide resources for redistribution; and developing technological education.

The emphasis on the need for good public policies was echoed by **John Rother**. He said that globalisation combined with global ageing is contributing to large-scale changes in retirement income and healthcare systems in developed countries. Faced with increased competition and growing costs, employers and governments are retooling social insurance and employer-based benefits, often leading to more risk and responsibility being pushed onto individuals. While financial security in retirement and healthcare are becoming increasingly costly, there is a dangerous idea that



**John Rother**

Martin Hirsch

competition between the generations for limited resources means that one generation can only benefit at the expense of another, for example by raising taxes to pay for retirement benefits. John Rother emphatically rejected this idea, saying there were alternatives that are equitable, and governments, businesses, and social partners must work towards new solutions that help ensure financial and health security for all individuals. For instance, workers could be enrolled in defined-contribution pension plans by default, creating savings vehicles for those without access to company plans, or tax credits could be offered to help low income employees pay for savings plans.

**John J. Sweeney** focused on the effects of globalisation on the workforce, stressing that in the United States it has led to more inequality, having benefited only corporations rather than individuals and workers. It would therefore be dangerous to consider the United States, the OECD country with the highest income inequality, as a model. The link between wages and productivity has been destroyed, undermining social cohesion. This is the reason why governments have to intervene in order to ensure that fundamental workers' rights, as well as environmental standards, are respected and to promote access to education and training.

**Martine Durand** pointed out that most of the proposed solutions were largely domestic in character, and one could question their applicability as solutions in a globalised world.

One reproach from the floor was that most of the speakers had appeared concerned about maintaining living standards in the OECD countries, with too little emphasis on encouraging development in poorer countries. John J. Sweeney stressed the importance of respecting aid commitments, especially when it comes to debt forgiveness.

Another questioner worried that France would introduce free market policies that had failed to produce declines in inequality elsewhere. In reaction to this, all speakers agreed that there was no point in trying to turn the clock back; what had to be done rather was to try to let each country define its own strategy and develop better co-operation. Finally the question of workers' rights was raised by an Oxfam representative. A possible answer to this would be to use growing consumer awareness of working conditions in developing countries as a powerful marketing argument that western consumers should buy products only from suppliers with fair labour practices. ■

John J. Sweeney


Martine Durand on the screen

# Innovation and equity in the Asia-Pacific region

## Fast and flexible strategy

- *MODERATOR:* **TOR TOLSTRUP,** COMMENTATOR, *MORGENAVISEN JYLLANDS-POSTEN*, DENMARK
- **SOUMITRA DUTTA,** DEAN OF EXTERNAL RELATIONS, INSEAD, FRANCE
- **JOHN P. HEARN,** VICE-PRESIDENT, UNIVERSITY OF SYDNEY, AUSTRALIA
- **GYEHYUN KWON,** VICE-PRESIDENT, SAMSUNG ELECTRONICS CO. LTD., KOREA
- **PHILIPPE PETIT,** DEPUTY DIRECTOR-GENERAL, WORLD INTELLECTUAL PROPERTY ORGANIZATION
- **YEN-SHIANG SHIH,** DEPUTY MINISTER, MINISTRY OF ECONOMIC AFFAIRS, CHINESE TAIPEI

Gyehyun Kwon

"Innovation is paramount for sustained growth, broader equity and stability in the long run", **Tor Tolstrup** reminded the audience at the start of this session, and the Asia-Pacific Region is no exception. Countries such as China and India are increasingly considered as real players in global innovation, while the huge effort in research and development (R&D), as well as an increasing share of high technology goods, testify to the key role of emerging Asian markets in innovation.

Australia, said **John P. Hearn**, aims to be "in the front line as an integral part of the brain, eyes and ears" of Asia-Pacific and the world. To achieve this, it will need to maintain and increase its enviable record in higher education and research; and capitalise on its recent innovations like solar energy technologies or the Nobel Prize-winning antibiotic treatment of gastric ulcers. But competition is fierce and like its national symbol, the kangaroo, Australia has to be fast and flexible – able to adapt its strategy to the global environment without forgetting equity, the key point for success. "Perhaps the 'E' in OECD can evolve innovatively in future to integrate economic, education, environment and equity dimensions", John P. Hearn said.

**Soumitra Dutta** delivered the "Silicon Valley secret" for innovation: ideas, talent, and capital. And he offered three key messages to countries, universities and companies to make this "magic triangle" work. Countries must capitalise on the "unique cultural competitor


Soumitra Dutta on the screen

Yen-Shiang Shih

advantage", and develop the "unique ability to take people from different parts of the world and make them feel at home"; universities must complement their knowledge with leadership, communication and organisation skills; and companies must bring strong values, narrow culture gaps and build global mindsets within teams in order to solve the problem of integration and retain talent.

**Gyehyun Kwon** highlighted innovation as the cornerstone of Samsung Electronics. In Samsung's view, innovation means a determined mindset as the driving force to transform a potential crisis into an opportunity. The company built its business model through a succession of crises. The Asian crisis in the late 1990s forced the company to reorganise further, instil innovation into its business model and boost R&D investment. Samsung was able to extend its global business competencies through a balanced business structure ranging from semiconductors to TVs. This resulted in a wellspring of innovation at a time when the digital revolution shook up the traditional business models and industry environment. Samsung responded and embraced this shift with the flexibility, the speed, and the openness to new ideas that accompany a truly global perspective for sustainable growth.

**Philippe Petit** argued that Asian countries are increasingly a "world innovative centre": the level of GDP dedicated to innovation has reached 3% in Korea, while China plans to reach 2.5% by 2020 and India 2% by 2012. This trend is supported by newly established top-quality R&D centres and abundant human resources, and is reflected in a sharp rise in the number of international patented innovations. But innovation is not a uniform process across Asia, Philippe Petit noted. The education system does not systematically produce top quality engineers, and specialisation tends to occur in either products or services, but rarely in both at the same time. Finally, according to Philippe Petit, the set-up of strong intellectual property rights is a condition of success for the development of these countries.


*(Left to right):* **Soumitra Dutta and John P. Hearn**

**Yen-Shiang Shih** highlighted the negative impact of Chinese Taipei's earlier lack of focus on innovation on the country's growth, competitiveness and employment. As a consequence, Chinese Taipei implemented an innovation policy focusing on the Information Technology (IT) industry, the "paramount engine" of the economy. After a deep analysis of the different stages of the value chain, companies have concentrated their R&D efforts on IT component design. A creative and dynamic social environment is the key to perpetuate an open innovation system. This environment is created in Chinese Taipei through a high percentage of educated people, and the 80,000 strong cohorts of Taiwanese researchers put the country among the top 15 innovative countries in the world. Looking to the future, Chinese Taipei aims to turn its innovation processes to improving equity, lifestyle and the environment.

In response to questions from the floor about using innovation to reduce poverty, Gyehyun Kwon said that corporate social responsibility initiatives aim to address such issues, and his company is actively involved in such initiatives around the world. John P. Hearn said that for him, equal access to quality primary and secondary education is the key to equity. ■

# Innovation and access to healthcare

## From patent rights to human rights

- *MODERATOR:* **JEAN-MARC VITTORI,** EDITORIAL WRITER, *LES ECHOS,* FRANCE
- **ALAN BRYDEN,** SECRETARY-GENERAL, INTERNATIONAL ORGANIZATION FOR STANDARDIZATION
- **JUAN PABLO DE LAIGLESIA,** SECRETARY-GENERAL, SPANISH AGENCY FOR INTERNATIONAL COOPERATION
- **GONZALO FANJUL SUÁREZ,** HEAD OF RESEARCH, INTERMÓN OXFAM, SPAIN
- **THOMAS WELLAUER,** MEMBER OF THE EXECUTIVE COMMITTEE, HEAD OF CORPORATE SERVICES, NOVARTIS

**Thomas Wellauer on the screen**

"This session is the most important of the Forum", began **Jean-Marc Vittori**, "because health is our main wealth". Spending on healthcare is about 10% of GDP in OECD countries and will almost certainly increase. "In ten years we may spend less on information technology, cars and vacations but we will certainly spend more on healthcare."

The healthcare sector is brimming with innovation and breakthroughs, he said, but it is also a source of great problems. Inequality of access to healthcare, particularly medicines, is a dilemma in both developing and OECD countries. Other issues such as measuring productivity of hospitals present different but important challenges.

A new "social contract" is needed if the world's poorest people are to have fair access to healthcare, participants in this session heard. **Gonzalo Fanjul Suárez** denounced what he described as the exorbitant price of medication in developing countries and said that the production of generic drugs must be pursued vigorously.

"We must find a mechanism", Gonzalo Fanjul Suárez said, "to redress the balance between profit and need". Drug patents and drug pricing are crucial to resolving the problem of access to medicines, and of counterfeit drugs which are ineffective, he said. Major pharmaceutical companies earn the bulk of their profits from the middle class; thus in Latin America, for example, the use of prescription drugs is rising 20% per year thanks to a growing middle class increasingly suffering from illnesses characteristic of the West. So research is devoted to curing obesity, heart disease, diabetes, even baldness, while diseases afflicting 90% of humanity, such as malaria, leprosy and sleeping sickness, receive a mere 10% of research. This disparity – known as the "10/90 disequilibrium" – does not only affect the developing world: in developed nations, old people with limited incomes may be prescribed a cheaper generic drug despite the fact that it may also be inferior.

***(Left to right):* Gonzalo Fanjul Suárez and Thomas Wellauer**

14 May

Then **Thomas Wellauer** defended the pharmaceuticals industry, noting that nine out of ten drugs are developed by pharmaceuticals companies, not by governments, and that 95% of all medications listed by the WTO are not under patent. Pharmaceutical companies are often demonised, but they have driven innovation, and innovation has produced cures for many diseases, among them also neglected ones such as tuberculosis and malaria or leprosy which, he predicted, will have been eradicated in a few years. What people fail to appreciate is the degree of risk in the undertaking. Pharmaceutical companies have to guard against losses like any other firm, and require the assistance of governments and NGOs if they are to venture further into developing treatments for neglected diseases. Thomas Wellauer said that "partnership is needed". Pharmaceutical companies cannot do it alone.


***(Left to right):*** **Alan Bryden and Juan Pablo de Laiglesia**

Much of the discussion centered on the cost of drugs and the need to shift research priorities. Yet **Alan Bryden** felt that while these issues were of major importance, resolving them would not solve all the problems. Another criterion of good healthcare is security. Effectiveness, he felt, was essential to preventing disease, and to the overall health of the world's populations. As the Secretary-General of the ISO, his mission has been to ensure that voluntary standards of good practice are disseminated and followed. To date, the ISO has established 16,000 internationally recognised standards. In the health sector, it has set standards for laboratories, clinics, drug producers and medical devices. The ISO has put in place a consensual framework for telemedicine (the use of communications and information technology to deliver clinical care) and the medical application of nanotechnology. For developing countries, instilling good practices helps to guarantee security and the effectiveness of the supply chain.

"Health is a human right", insisted **Juan Pablo de Laiglesia**. He recognised the importance of the technological innovations cited by Alan Bryden, but said they seemed far removed from the daily tribulations of patients in the developing world. There, drug distribution is a more pressing concern; medicines are available, but getting them to patients can be next to impossible. The problem is not only one of research and fair pricing, but of infrastructure. His agency, the Spanish Agency for International Co-operation, was pursuing the UN Millennium Development Goals, which include fighting pandemics and improving health access in developing countries. Along with the other panellists, he agreed that fair pricing and the 10/90 disequilibrium remained enormous hurdles. New strategies were needed, and the public and private sectors must work more closely together.

A questioner from the floor said responsibility for providing access to healthcare must be shared, and asked how far developed and developing countries were involved in partnerships, and how pharmaceutical companies were helping developing countries.

Thomas Wellauer cited the Novartis centre for tropical disease as a good example of partnership. It is funded by Novartis, the Gates Foundation and the Singapore government, and is working to develop new medicines for drug-resistant tuberculosis, dengue fever and malaria – three diseases with no commercial value but which are incredibly important for developing countries.

In response to a question on how to combat counterfeit drugs, Thomas Wellauer said that this serious problem has to be jointly solved by governments, pharmaceutical companies, distributors and pharmacies, and will involve the use of new technologies. ■

***(Left to right):*** **Juan Pablo de Laiglesia, Gonzalo Fanjul Suárez and Thomas Wellauer**

# Open markets for investment

## Ready for world business

- *MODERATOR:* **FRANÇOISE CROUÏGNEAU,** CHIEF INTERNATIONAL EDITOR, *LES ECHOS,* FRANCE
- **AGNÈS BÉNASSY-QUÉRÉ,** DIRECTOR, CEPII, FRANCE
- **LUC CORTEBEECK,** PRESIDENT, BELGIAN CHRISTIAN TRADE UNION CONFEDERATION
- **CAROLYN ERVIN,** DIRECTOR, FINANCIAL AND ENTERPRISE AFFAIRS, OECD
- **IRINA KIBINA,** VICE-PRESIDENT, CORPORATE AFFAIRS AND INVESTOR RELATIONS, EVRAZ
- **CHRISTOPH MATZNETTER,** SECRETARY OF STATE, FEDERAL MINISTRY OF FINANCE, AUSTRIA
- **HAMISH MCRAE,** ASSOCIATE EDITOR, *THE INDEPENDENT,* UNITED KINGDOM

Christoph Matznetter

**Françoise Crouïgneau** opened the discussion by highlighting the fact that government attitudes to direct investment can be ambivalent – investments that create employment are welcomed, but not necessarily takeovers of domestic firms. This often leads to calls to protect strategic sectors, which in turn raises the question of how to define which sectors should be deemed strategic.

**Agnès Bénassy-Quéré** noted that much of the huge increase in capital flows in recent years has been in the "wrong" direction, away from developing countries and towards the United States to finance its huge current account deficit. Developing country financial systems often suffer from inadequate supervision, weak legal systems and other failings that reduce their attractiveness to domestic investors. This suggests that measures to strengthen financial systems in the developing world could lead to a virtuous circle of rising inward investment and increasing incomes.

**Christoph Matznetter** focused primarily on domestic equality issues related to globalisation. The government's primary aim should not be simply to increase national income, but to improve living standards. Austria had embraced more open investment, but while such liberalisation has had a positive effect on national income, there have been clear winners and losers. Returns on capital have increased apace, but wages have

*(Left to right):* Françoise Crouïgneau and Irina Kibina

stagnated, resulting in a significant reduction in labour's share of national income. "The winners must compensate the losers", Christoph Matznetter said, and proposed a raft of initiatives including higher corporate tax, stronger labour rights and increased protection by the welfare state.

**Luc Cortebeeck** argued for "socially responsible investment" that bore fruit for those towards the bottom end of the income distribution. A purely *laissez-faire* approach was insufficient to achieve this; government intervention was required to set a floor under labour standards. Luc Cortebeeck argued that the OECD Guidelines for Multinational Enterprises were a critical step in achieving this, given that they are the result of negotiations between a wide variety of stakeholders. Voluntary codes of corporate social responsibility are limited in their effectiveness, and governments need to enforce proper labour standards, and to introduce more binding rules on the activities of investors, including hedge funds and private equity funds.

**Irina Kibina** lamented what she described as a misguided preconception dominant in OECD countries that they possessed a monopoly on "best practice" in corporate governance and corporate social responsibility. She called instead for global practices combining approaches from different corporate cultures. She also said that the often critical attitude of the media in many OECD countries to Russian, Ukrainian and Chinese businesses is counterproductive. Such companies had made great strides in developing their business practices, she said, and recognising this would prove more beneficial than engaging in indiscriminate censure, which sapped the companies' morale and stymied the desire for future action.

Agnès Bénassy-Quéré


*(Left to right):* **Luc Cortebeeck and Carolyn Ervin**

**Hamish McRae** said we were seeing the reversal of the shift in economic power caused by the Industrial Revolution, with the rise of the BRIC countries (Brazil, Russia, India, China) signalling a seminal shift of the global balance of political, economic and cultural power. But not all western countries have lost out, he said, citing the UK's enthusiastic embrace of globalisation, with London positioned at the centre of the global flow of capital and a huge overall rise in the average standard of living for UK citizens. But there are three key questions for the future of the global economy: the ongoing shift from public markets to private equity as the most important conduit of capital flows; the potential effects of future recession; and rising protectionist sentiment in the developed world.

**Carolyn Ervin** agreed that problems such as poor institutional quality, corporate responsibility and the rising spectre of protectionism, were very real. But the OECD is uniquely positioned to provide guidance on such issues, given its wide-ranging multilateral dialogue between its 30 member countries and extensive consultations with other countries. She highlighted three key beneficial initiatives: the development of corporate governance; corporate and social responsibility; and investment policy guidelines. OECD work has found that the best approach for countries to attract investment was to develop strong institutions as most multinational firms preferred investment environments similar to those in their home countries. This suggests that the fear of a "race to the bottom", as countries reduced labour protection to remain globally competitive, was unfounded.

Questions from the floor raised concerns about the increasing role of private equity firms and how they are regulated. Luc Cortebeeck said that lack of regulation was a concern, particularly because of the high debt levels of some private equity-owned firms, but Hamish McRae agreed with a comment from the floor that if the private equity "loophole" is closed, its place would be taken by rich individuals who did not have to answer to anybody. ■

Hamish McRae

# Financial market innovation

## Private inequity?

- *MODERATOR:* **JOHN THORNHILL,** EDITOR, EUROPEAN EDITION, *FINANCIAL TIMES,* UNITED KINGDOM
- **ADRIAN BLUNDELL-WIGNALL,** DEPUTY DIRECTOR, FINANCIAL AND ENTERPRISE AFFAIRS, OECD
- **FRANCISCO GONZÁLEZ RODRÍGUEZ,** CHAIRMAN AND CEO, BBVA, SPAIN
- **MARC LITZLER,** DEPUTY CEO, CALYON, FRANCE
- **JOHN MONKS,** GENERAL SECRETARY, EUROPEAN TRADE UNION CONFEDERATION

Francisco González Rodríguez

**John Thornhill** introduced this session by pointing out one of the most dangerous phrases in the financial industry: "this time, it's different". He then highlighted that something fundamental does appear to have changed the nature of the financial markets in recent years. We are led to believe that innovation in financial markets will flatten economic cycles, increase productivity and create jobs and profitability. Yet the general perception of finance is quite the opposite. Why has the gap between theory and perception become so wide?

**Marc Litzler** made a strong defence of the positive role of innovative financial instruments in the world today, but acknowledged that some have raised concerns about whether they generate true value or just large commissions for some financial players. He retraced the history of wholesale banking and described how the industry has moved from commercial banking to investment banking *via* the dramatic rise of capital markets, asset management and mutual fund activities.

Marc Litzler

Global investment banks are now the meeting point between investment and financial needs in a wide range of areas. He insisted on the fact that a bank has to be flexible and responsive to the evolution of global markets. We live in a world of huge imbalances between geographical areas, as well as new challenges such as the need to ensure viable pension systems for an ageing population. Banks should diversify their activities in terms of geographical location and develop new products such as "mortality table derivatives" to help meet these challenges. Financial innovation can help to boost returns on savings and to transform wealth into a stream of annuities in retirement, for instance. "It holds the key to future development", Marc Litzler said.

**John Monks** underlined how the global financial industry has become one of the most dynamic and profitable economic sectors in the world. But, while acknowledging the positive aspects of this development, particularly in terms of employment and high salaries, he expressed deep reserves about financial innovations. "It is not easy to attract capital for risky long-term projects", he said. "Risk is simply being pushed onto others … Innovation in the financial services industry often seems synonymous with high-yield, tax-efficient funds based in the West Indies."

John Monks was highly critical of the culture of private equity funds, which demand a return on capital of at least 15%, and sometimes as high as 27%. "These returns are often achieved by financial engineering, not creating new products and services", he argued. "I think the model is dangerous. It is not releasing value but wasting it." By warning that "if we cannot do it here we can go somewhere else", private equity creates distortions in the economy. For John Monks, "there is a real worry that these innovations are a risk to responsible business".

**Francisco González Rodríguez** provided a graphic description of both the benefits and the potential dangers of financial innovation. Financial innovations, such as derivatives and Internet banking are helping to create a new model that will radically lower costs and bring more people into the banking system. On the other hand, it is risky. What happens if there is a major shock? "The problem is that most of these new derivatives are based on models that have not been tested in the real world … If something goes wrong, we will see a lot of blood on the street, no doubt."


Adrian Blundell-Wignall on the screen

Deregulation has been a boon for risk-takers but has also clouded the vision of the financial world. "There is not enough transparency, there is not enough information and there is a widening gap between the real economy and the financial indexes", he said.

Still, Francisco González Rodríguez maintained "it's too late to go back". Innovation must play a key role in preparing financial institutions for the future and in enabling them to take advantage of opportunities in a global, fiercely competitive market.

**Adrian Blundell-Wignall** warned that the main risk to the financial system lies not in private equity and hedge funds, but in the colossal liquidity bubble originating in China. By subsidising the price of energy and holding down its currency rate, emerging countries like China are flooding the US market with cheap products that keep inflation at an artificially low level and generate a huge current account surplus that is at the origin of historically low interest rates. But such imbalances cannot last forever.


John Monks

Unlike John Monks, Adrian Blundell-Wignall argued that hedge funds and private equity "play a very positive role", providing liquidity to mispriced assets and companies. They are also key players when it comes to restructuring firms that have to compete with subsidised products coming from China. Private equity saves jobs by saving companies.

An audience member asked whether the European commodities market plays a role in the reduction of agricultural subsidies. Marc Litzler explained that the recent increase in derivative markets is linked to the cost of energy, and that soft commodity markets, such as for grains, are used extremely poorly in Europe, especially France. It is therefore unlikely that they could play a significant role. ■

# Innovation, equity and investment in the MENA region

## Mediterranean promise

- *MODERATOR:* **MICHEL OGRIZEK,** MANAGING DIRECTOR, MGROUP
- **DOMINIQUE BAUDIS,** PRESIDENT, ARAB WORLD INSTITUTE
- **MARTIN BERLIN,** CHIEF OPERATING OFFICER, TATWEER, UNITED ARAB EMIRATES
- **RAINER GEIGER,** HEAD, OECD-MENA INVESTMENT PROGRAMME, DEPUTY DIRECTOR, FINANCIAL AND ENTERPRISE AFFAIRS, OECD
- **OMAR HIJAZI,** CEO, TEJARI, UNITED ARAB EMIRATES


*(Left to right):* **Dominique Baudis and Martin Berlin**

The Middle East and North African countries surrounding the Mediterranean Sea, also known as MENA, represent an "unprecedented opportunity" for economic development and innovation, according to **Rainer Geiger**. But this region still faces major problems, notably high unemployment (an estimated 100 million jobs will need to be created by 2020 just to maintain current employment levels), a lack of an entrepreneurial culture and a huge gap in equity, despite great wealth. The region also suffers from a poor media image.

Rainer Geiger presented the MENA-OECD Initiative as strongly innovative, and as a means to develop infrastructure and implement development policies through public-private partnership, which should attract investment and encourage innovation. He insisted on the development of an enterprise network to improve innovation locally. Improved information sharing, matchmaking with foreign investors, and participatory models are necessary. "Labour productivity improves if workers are considered as agents of change", he pointed out.

The United Arab Emirates is one of the most innovative players in the Middle East. **Omar Hijazi** cited the 2007 World Business/INSEAD Global Innovation Index, which ranks the United Arab Emirates as the 14th most innovative country in the world, and the only country in the top 15 that was not European, Asian or North American. Dubai's astonishing growth is the most obvious example. It boasts one of the world's largest real estate developers, Emaar, and port operators, DP World.

Omar Hijazi referred to his firm Tejari as an "E-Bay of the Middle East". It is a pioneer in business-to-business online. He credited its success to its decision to run counter to the prevailing tendency in the area, which is to invest in shorter-term projects with quick returns, in favour of longer-term, sustainable projects. Without such patience, innovation is stunted, he argues. One part of Tejari's strategy has been to grant franchises to local companies. There are now nearly 80,000 such franchises.

**Omar Hijazi**


**Martin Berlin**, COO of Tatweer, a member of Dubai Holding, stressed that qualified labour was crucial for innovation. "Success in strategic development cannot be defined solely by major achievements in the economic sectors", he said. "Other growth enablers, such as human capital, must also be realised." Improved strategy means a vigorous and continuous investment in human capital, including leadership development.

In spite of such measures, Martin Berlin did not believe that innovation was possible until the appropriate infrastructure was in place. Infrastructure draws investment, and investment, in turn, stimulates innovation. But when it occurs, will it be real innovation? Too often, the urge is to rely on well-established models. "A disastrous choice", he said, since innovation is not a "cut and paste" operation.

Then **Dominique Baudis** quoted the United Nations: "The Arab world is more rich than developed." But he qualified his statement by saying that the region is actively rethinking its future. Oil alone cannot entirely ensure the future, so MENA is turning to other investment opportunities, such as those offered by the tourism and audiovisual sectors. Dominique Baudis also made the key point that the situation of women in MENA is crippling development, an issue that would be addressed several times during the question and answer session with the audience. Yet progress had been made, and he pointed to efforts by Morocco and Tunisia to raise the profile of women in society. As to the role of the Arab World Institute over which he presides, he emphasised that it could play neither a political nor an economic role, but could promote dialogue and foster co-operation.

One of the questions from the floor concerned the Islamic banking system, which operates according to Sharia law. Were they not overly restrictive, and how could they establish themselves on the international scene?

**Michel Ogrizek** suggested that we should perhaps think of the Muslim world at large, where huge opportunities for Islamic banking exist, and this includes South-East Asia and Sub-Saharan Africa, for example. As for the constraints, Omar Hijazi did not see them as at all restrictive.

A question was raised as to which models best facilitate change. The panel agreed that no single model could be adopted. Taking China, India and Singapore as different models of successful innovation, the assumption that a western-style democratic system is the best model for ensuring growth did not go unchallenged. In Omar Hijazi's opinion, neither Dubai nor Singapore could have achieved such fantastic development under a democratic system. Rainer Geiger, however, felt that democratic reform was an inevitable result of sustained growth.

At the end of the session, Michel Ogrizek asked each of the panellists to state what their key message would be to encourage innovation in the MENA region. Omar Hijazi felt that the innovative spirit was "alive and well" in the region; Martin Berlin said that the West should consider what it could learn from the Arab world; and Rainer Geiger concluded by saying that the opportunity for joint effort between MENA and OECD countries should now be seized. ■

**Martin Berlin in the speakers' lounge**

# Infrastructure to 2030: Growth, innovation and finance

## Securing globalisation's foundations

- *MODERATOR:* **MICHAEL OBORNE,** DIRECTOR, ADVISORY UNIT ON MULTIDISCIPLINARY ISSUES, OECD
- **PIERRE LEFEBVRE,** CEO, AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC
- **LORD MACDONALD OF TRADESTON,** CHAIRMAN, INVESTMENT BANKING GROUP, EUROPE, MACQUARIE BANK
- **GRÉGOIRE POSTEL-VINAY,** HEAD, OFFICE OF STRATEGY, INTELLIGENCE AND PROSPECTIVE, MINISTRY OF ECONOMY, FINANCE AND INDUSTRY, FRANCE
- **HANS WERDER,** SECRETARY-GENERAL, FEDERAL DEPARTMENT OF THE ENVIRONMENT, TRANSPORT, ENERGY AND COMMUNICATIONS, SWITZERLAND

**Lord Macdonald of Tradeston**

**Michael Oborne** began by recalling the Forum 2007 theme of "Innovation, Growth and Equity" and said that infrastructure in the transport, energy, water and telecommunications sectors, to name only a few, were vital for progress in all three of these objectives. However, governments in both OECD and developing countries are finding it increasingly difficult to finance the levels of infrastructures needed for sustainable growth.

Even today, a gap is opening between the level of investment required to maintain infrastructures and the ability to meet this demand with public sector sources. Power outages in North America, Germany and Italy; water shortages in Australia, Mexico and California; and unloaded containers in ports in the United States, Asia and Europe, were all witness to the fact that infrastructures throughout the world are overstretched. The public sector, under pressure by increasing social expenditures and the need to tighten budgets can not be counted on to maintain infrastructures. According to Michael Oborne, innovative options such as user-pay schemes, private sector funding, greater efficiencies through new technologies and better resource management will be required in the future.

**Lord Macdonald of Tradeston**, speaking not just as an expert on financing investments but also as someone with previous experience of working on PPPs as part of the UK government, highlighted the advantages they offered. Infrastructure investment projects, he noted, are becoming an important asset class in their own right, particularly for pension funds and investors with a longer term investment horizon. The attraction "comes from infrastructure's long life, its often essential services, stable regulation and pretty predictable cash flows". Those specific features place infrastructure investments somewhere between equity and bonds in the portfolio of private investors, particularly attracting "patient capital". "Pension funds are particularly interested because the long life of infrastructure projects runs in parallel with their decade–long liability horizons."

**Hans Werder**

The challenge for the public sector is to attract this capital and direct funds towards the areas where it is most needed, and PPPs offer a means of doing so. In the last ten years, there have been about 900 PPP/PFI (Private Finance Initiative) projects in the United Kingdom with a total value of around £50 billion. Generally, the British experience with PPPs has been favourable, but there are still many questions about the feasibility of such projects in some areas, as certain types of project lend themselves to PPPs better than others.

**Pierre Lefebvre** added that PPPs have to be monitored because infrastructure projects do not just need more funding, but also "wiser funding". Success requires a strong regulatory framework, especially to promote transparency. For instance, Pierre Lefebvre gives the example of "fairness auditors" to control the relationship between the public and private sector partners. Such regulations comfort private investors and attract new actors to the market, not only nationally but also internationally. Better, standardised processes are needed to optimise PPPs, and to make sure that the public sector gets a good deal, rather than simply providing easy profits for private sector partners. Indeed, Pierre Lefebvre noted that in the past, around 20% of PPPs failed to make any profits.

**Grégoire Postel-Vinay** also stressed the need for strong legal frameworks for PPPs in order to avoid financial crises (such as the Panama Canal and other more recent examples). He also proposed that WTO agreements related to investments and capital movements could be revised in order to remove any discriminatory practices (in the tendering process, for example) and to increase transparency.

Grégoire Postel-Vinay on the screen


Pierre Lefebvre

**Hans Werder** added that, even in cases where PPPs are used, governments retain overall responsibility for infrastructure investments, and need to guarantee that adequate maintenance is conducted, co-ordinate the integration of infrastructure networks and ensure that networks are operated efficiently. He also suggested other forms of financing, noting that the introduction of user charges might be politically difficult, and that earmarking taxes might offer a second best approach, at least in developed economies. Moreover, dedicated investment funds, such as those used to construct road and rail infrastructure in his native Switzerland, were another alternative.

One question from the audience underlined another challenge raised by PPPs: how to reconcile the diverging interests of the public and private sectors, ensuring both the high quality of public services and high profitability? To Pierre Lefebvre the answer lies in the details of the contract negotiated for the PPP. If the contract is well-balanced, each party can act as a counterweight to the other and make sure that its interests are preserved. In a properly drawn contract, the State can defend its priorities, while the private sector can seek to ensure an adequate return.

In response to other questions from the floor, the panel highlighted the fact that developing countries cannot rely on development aid to finance their necessary infrastructure spending, and might be obliged to turn to PPP as a source of finance. To help them to do so, the experiences of OECD countries could prove very useful.

Michael Oborne

# Public concerns about globalisation

## Everyone's responsibility

- *MODERATOR:* **FRANÇOIS ROCHE,** DIRECTOR, *FOREIGN POLICY*, FRENCH EDITION
- **GUY RYDER,** GENERAL SECRETARY, INTERNATIONAL TRADE UNION CONFEDERATION
- **JACQUES TERRAY,** VICE-PRESIDENT, TRANSPARENCY INTERNATIONAL FRANCE
- **KARIEN VAN GENNIP,** MEMBER OF PARLIAMENT, NETHERLANDS

**Karien van Gennip**

**François Roche** introduced the discussion by commenting on the 2007 French presidential campaign in which people's fear of globalisation figured prominently. As moderator, he launched the debate by asking: "are those concerns justified? How should they be dealt with?"

**Karien van Gennip** first shared five insights with the audience. First, in her mind, globalisation is "here to stay". It is not something that we can ignore or stop; it is here and it will not go away.

Second, the direction that globalisation will take is unclear. As such, it is better to promote change now and try and influence it as best we can. Third, we must avoid asking whether globalisation is good or bad, and concentrate on taking advantage of globalisation. Fourth, she argued that globalisation's overall effect was positive, though the costs and benefits are not well distributed between winners and losers.

Finally, social change is the main factor provoking uneasiness about loss of identity. This uneasiness promotes nationalism and protectionism. Politicians and world leaders must understand these fears in order to turn them around.

Karien van Gennip concluded by emphasising that the path of globalisation is not pre-determined, and that there are many things we can do to make it a force for the better. For instance, a sincere effort to combat poverty must also consider how to promote entrepreneurship and, in turn, how to promote trade, prevent corruption, and encourage increased investment in healthcare and education in developing countries.

**Guy Ryder** agreed that "perceptions matter". After all, governments need to take them into account or face sanction by the electorate. However, he disagreed with Karien van Gennip's assertion that "globalisation is here to stay". Nor did he believe in the argument that people are mainly afraid of losing their identity; rather, in his view, people are afraid of losing their jobs.

The negative perception of globalisation is neither limited to one part of the world, nor to a certain level of skills. The ITUC chief insisted on the following paradox: workers in developing countries believe globalisation is loaded against them; at the same time, workers in developed countries feel their jobs are threatened by low-cost countries. Furthermore, returns to workers have reached an historically low level; productivity has improved but salaries have stagnated or decreased. Globalisation has increased social inequalities in developed countries and has failed to solve poverty in developing ones. Those negative perceptions should be understood and responded to, according to Guy Ryder.

**Jacques Terray**

Guy Ryder

**Jacques Terray** focused his presentation on the risks of financial globalisation which, he argued, has led to unlimited movements of capital worldwide. According to the Transparency International representative, the absence of regulation and the huge variety of products available enables economic agents to exert powerful influences on any country in the world. This phenomenon is responsible for higher global financial risk and has provoked crises such as those suffered by Argentina and Russia.

But another dangerous risk linked to financial globalisation is the rise of international crime. In his view, financial globalisation opens up the field to all types of trafficking and a higher use of so-called "tax havens". Unless policymakers can stay ahead of these types of criminal activities, perceptions of globalisation will inevitably be negative.

Jacques Terray also drew attention to the OECD Anti-Bribery Convention, which marks its 10th anniversary later in 2007. Though an important tool in the fight against worldwide corruption, a decade later, the goal of the convention remains elusive. Consequently, Transparency International would like to see a strengthening of the OECD effort and a continuation of its strong monitoring mechanisms against corruption. As such, he agreed with other panel members, saying that globalisation is not a free-for-all and that it will only prove positive if everyone plays by the rules. Indeed, this seemed to be the conclusion reached by all participants on this panel.

Questions from the audience centred on how globalisation could be managed so as to increase its benefits for the world's poor. Karien van Gennip argued that economic reforms are essential in low to middle income countries in order to boost entrepreneurship. She added that developed counties need to 'get serious' about health and education investment, not shying away from such serious issues as better condom distribution in areas heavily affected by HIV/AIDS. ■

François Roche

# Climate change: From words to action

## Beyond hot air

- *MODERATOR:* **LORENTS LORENTSEN,** DIRECTOR, ENVIRONMENT, OECD
- **ASIT K. BISWAS,** PRESIDENT, THIRD WORLD CENTRE FOR WATER MANAGEMENT
- **TORE K. JENSSEN,** VICE-PRESIDENT, SHEQ, YARA INTERNATIONAL ASA, NORWAY
- **SHERI XIAOYI LIAO,** PRESIDENT, GLOBAL VILLAGE OF BEIJING, CHINA
- **GUY RYDER,** GENERAL SECRETARY, INTERNATIONAL TRADE UNION CONFEDERATION
- **HANS VEROLME,** DIRECTOR, GLOBAL CLIMATE CHANGE PROGRAMME, WWF, SWITZERLAND

**Sheri Xiaoyi Liao**

There is a deluge of figures on the impact of climate change on our societies. But they do not mean much, according to **Asit K. Biswas**, unless you consider the distribution of those figures. It is physically impossible for the global amount of rainfall to increase or decrease, but its distribution will shift. Seasonal rainfall levels, particularly in tropical countries, have a tremendous economic and social impact on those societies.

As an example, the president of the Third World Centre for Water Management compared London and Delhi, two cities with similar levels of rainfall. Rainfall in London is pretty much a constant, as anyone who has lived there will know. But in Delhi, 90% of annual rainfall occurs in less than 80 hours. We must be wary of generalising the figures, Asit K. Biswas said. A much-welcome drop in rainfall in Delhi could have disastrous consequences for sub-Saharan Africa. Water management will be complicated by climate change, especially in developing countries. It is nonsense, he said, to talk about climate change without taking into account water, food and energy security.

*(Left to right):* **Asit K. Biswas and Tore K. Jenssen**

**Tore K. Jenssen** said that encouraging companies to pursue environmentally sound policies was difficult, necessitating regulation to force compliance. What is lacking are incentives for compliance. The vice-president of Yara International regretted that rich countries, in particular members of the EU, had delayed the adoption of ambitious trading schemes to reduce emissions.

**Guy Ryder** was more optimistic. He noticed a "spectacular" change over the last few years as more trade unions, entrepreneurs and CEOs were sincerely committing themselves to fighting climate change. What people have

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*(Left to right):* **Guy Ryder and Hans Verolme**

done is admit that our economies are "addicted to carbon" which, like any other addiction, cannot be cured until this first, decisive step is taken. Next, we must be willing to face the fact that managing climate change may be costly today, but will pay off tomorrow. However, politicians hate to deliver this message to electors. Guy Ryder said that one high official put it frankly: "if politicians pressed for more stringent measures, how would we ever get elected again?" He blamed companies and politicians for their apprehension. Guy Ryder did not spare the trade unions, including his own, which did not support the Kyoto Protocol until he took over at the helm.

Sustainable development has three dimensions: economic, environmental and social. Therefore, strategies designed to manage climate change could not neglect the latter. Can jobs become "greener"? Yes, but new jobs will require new skills and retraining. Failure to realise this undermines the aim of sustainable development, Guy Ryder felt. This is where trade unions can make a crucial contribution.

**Hans Verolme**, citing the much-quoted 2006 Stern Report, said that "we can afford to stop climate change". But we must be bold and act now; if we do not, climate change will be, according to the Stern Report, "the biggest market failure of the 20th century". Hans Verolme argued that we must make present energy use greener, invest in alternative energies, and halt rampant deforestation, which alone accounts for 20% of $CO_2$ emissions. But implementing these measures only makes sense in a global framework. For the director of the WWF's Global Climate Change Programme, what we need is a new "climate change deal".

Although much of this burden falls on the shoulders of companies and governments, **Sheri Xiaoyi Liao** stressed the importance of educating the general public too. This means making people aware of the consequences of climate change as well as of the concrete measures each person should take to avoid them. Global Village, for example, distributes a series of leaflets. On one side of each leaflet are the results of one aspect of climate change; on the other side, the action one can take to avert it. Furthermore each leaflet contains a phrase which, when recited with the others, forms an easy to remember refrain, a sort of *aide-mémoire*. Such concrete and accessible methods, she feels, are the best way to inform people about the seriousness of climate change and encourage them to adopt new habits.

Sheri Xiaoyi Liao also underlined the vital role of the media. Media, working with companies, governments, NGOs and experts, can also raise general awareness and foster responsibility. Finally, the Global Village founder called on rich countries to be more pioneering in fighting climate change.

The panel agreed that managing climate change is an immensely complicated task. It is not something undertaken unilaterally, but must be shared by all countries. Many countries lack the regulations or the incentives to change. **Lorents Lorentsen** agreed that this is a distressing problem. Negotiating the hurdles towards a global policy on climate change is daunting. No-one could say exactly how this can be brought about, except by constant, uncompromising effort and the willingness to work together.

A member of the audience asked whether it was possible to have one coherent plan of international action, given the lack of countries willing to ratify the Kyoto Protocol. Guy Ryder argued that international negotiation was the only way forward and that, indeed, unless more countries signed on, the accord would not go as far as we would like. ■

*(Left to right):* **Lorents Lorentsen and Asit K. Biswas**

# Education, equity and growth

## Knowledge economics

- *MODERATOR:* **BARBARA ISCHINGER,** DIRECTOR, EDUCATION, OECD
- **JOHN BANGS,** ASSISTANT SECRETARY, EDUCATION AND EQUAL OPPORTUNITIES, NATIONAL UNION OF TEACHERS, UNITED KINGDOM
- **DONATELLA LINGUITI,** UNDER SECRETARY OF STATE FOR EQUAL OPPORTUNITIES, ITALY
- **ANA LUIZA MACHADO,** ASSISTANT DIRECTOR-GENERAL FOR EDUCATION PROGRAMME MANAGEMENT, UNESCO
- **ELI OPPER,** CHIEF SCIENTIST, MINISTRY OF INDUSTRY, TRADE AND LABOR, ISRAEL
- **WUSHENG ZHANG,** PRESIDENT AND PROFESSOR, TIANJIN ACADEMY OF EDUCATIONAL SCIENCE, CHINA


*(Left to right):* **Barbara Ischinger and John Bangs**

"It is clear that education is linked to growth", began **Barbara Ischinger**. Upper secondary education improves students' earnings by about one-third, decreases the risk of unemployment, especially for young people, and increases output per head in the economy as a whole by about 6%. Knowledge industries are the sectors showing the most rapid growth rates, and these require skilled workers. This is why more investment in education is needed.

Investment in education will increase labour force participation and can sustain the employability of older workers at a time when many countries' work forces are beginning to shrink. Barbara Ischinger also pointed out that education systems can help narrow inequalities and curb the influence of social background.

In **John Bangs'** view, the wealth and happiness of a country is closely linked to the level of education of its population. Education is a right, and that right is the key to a happy society, an equitable community, and a buoyant economy. Still, all children do not enjoy equal access to good education and might not have the opportunity to learn new skills and disciplines throughout their adult lives either.

John Bangs suggested a series of goals and prerequisites which could help secure a high quality, equitable, country-wide education. These were:

- cohesive policies between all industrialised countries so as to promote education;
- a global, United Nations target for average spending on education to help to narrow massive inequities in educational spending between developing and industrialised countries;
- education should be a public service with no private providers, but with supportive private partners;
- the use of differentiation between students in order to meet individual needs within schools, but never between types of school;
- continuing professional development for all teachers; and
- institutional self-evaluation to identify and rectify weaknesses.

**Donatella Linguiti** called for a "fundamental change of the socio–economic paradigm" that emphasises secularity, universalism, knowledge and innovation. This new model requires greater investment in scientific research, but also in the diffusion of education among citizens. Education should also be reformed so that diversity becomes an objective in a public school system.

Donatella Linguiti also insisted on women's rights as "an essential condition for a development path which takes into consideration the aspirations of all persons rather than a subset of privileged ones". She recalled that 2005 marked the beginning of the Education Decade for Sustainable Development, "a crucial opportunity for further advancement towards a sustainable world".

**Ana Luiza Machado** stated that UNESCO's work on education is defined by two main frameworks: equality for women and the Dakar commitment to "education for all" by 2015. She insisted that equity must be

*(Left to right):* **Donatella Linguiti, Ana Luiza Machado and Eli Opper**

promoted among geographic regions, within regions, and within individual countries.

UNESCO's framework identifies key dimensions that determine access to education. Among these are income level, area of residence, ethnicity and gender inequalities. Combinations of these factors multiplied their impact. School is the only way for many people to leave poverty behind, so the quality of schools needs to be high even in rural areas.

**Wusheng Zhang** supported the idea that "globalisation of higher education is necessary for the development of higher education". Such a trend in higher education systems obviously benefits both developed and developing countries. For developed countries, globalisation offers an opportunity to "increase influence in the politics, economics and culture of their visiting students' home countries". Developing countries in turn gain access to advanced technologies and science.


*(Left to right):* **Ana Luiza Machado, Eli Opper and Wusheng Zhang**

Yet, globalisation of higher education is bound to raise inequality, partly due to the consequences of "brain drain". Hence, the speaker offered three suggestions to try to promote equal development in higher education. First, co-operation between universities in the developed countries and those in the developing countries so that students may take the courses offered by foreign universities without leaving their own country. These courses should lead to the same qualifications upon completion. Second, developed countries should encourage their own students to study in developing-country institutions, thus balancing flows. Finally, organisations such as UNESCO should co-ordinate the global flow of students and help adopt "proper policies to encourage overseas students to return and serve their own country when they finish their learning abroad".

**Eli Opper** highlighted Israel's relative success in a competitive technological context, noting that "Israel is a great source of innovation". Israel has 140 engineers and technicians per 10,000 population, whereas Japan and the United States have only around 80. Education and innovation are essential to the economy, especially high quality education. If you want real economic growth, he noted, you need high quality education and strong technological innovation; "Excellence is a word in which I believe".

Questions from the floor focused on the "brain drain" and possible solutions to address the problem of students who do not return to their own countries. Eli Opper, taking the Israeli example, explained that having top universities and flourishing, top class industries in Israel has helped attract students back to their homeland. But, as another participant pointed out, such a solution requires a minimum level of technology and will therefore never be an efficient solution for developing countries. ■

# Future challenges for the multilateral trading system

## Doha and beyond


Phil Goff on the screen

- *MODERATOR:* **ALAN BEATTIE,** WORLD TRADE EDITOR, *FINANCIAL TIMES*
- **PHIL GOFF,** MINISTER OF TRADE, NEW ZEALAND
- **FRANK HEEMSKERK,** MINISTER FOR FOREIGN TRADE, NETHERLANDS
- **HUMAYUN AKHTAR KHAN,** MINISTER FOR COMMERCE, PAKISTAN
- **PASCAL LAMY,** DIRECTOR-GENERAL, WORLD TRADE ORGANIZATION
- **EDUARDO SOJO GARZA-ALDAPE,** MINISTER OF ECONOMY, MEXICO
- **OSCAR TANGELSON,** SECRETARY OF ECONOMIC POLICY, MINISTRY OF ECONOMY AND PRODUCTION, ARGENTINA
- **STEN TOLGFORS,** MINISTER FOR TRADE, SWEDEN

**Alan Beattie** opened the session by recalling his first days as Trade Editor of the Financial Times. "At the time", he said, "I was worried about being away on vacation at the time of a major breakthrough in the Doha Round of negotiations". "As it turns out", he continued, "I could have taken a sabbatical, done a PhD, published it as a book, taken orders as a Benedictine monk and still not missed a major breakthrough in the Doha".

He put this down to the Doha Round's ambitious task of taking on agriculture. An area that is particularly difficult to tackle because the interests defending it are small and concentrated while the gains are large but diffuse. The Doha Round would need less fear from small producers and more greed on the part of major exporters if a breakthrough is to be found, he concluded.

The key message here was clear: today, the multilateral system has extended from agriculture and manufacturing to services, technologies, innovation and beyond. The way we handle the multilateral trading system is going to affect the way we live in the years to come. The debate is going to continue in wider and wider circles, while the development dimension will remain central, even beyond the Doha Trade Round. The multilateral system is not about protecting yesterday's profits and entrenched interests for particular countries, but to regulate,

Pascal Lamy

integrate and open up trade to the benefit of all countries for the future.

**Phil Goff** re-emphasised the benefits accruing from trade liberalisation, citing a recent study which demonstrated full global tariff removal would be worth USD 290 billion a year to the world economy. Indeed New Zealand's own process of liberalisation, despite certain adjustment pains in the medium term, has provided huge net benefits, including one of the lowest unemployment rates in the world.

Phil Goff also asserted the need for multilateralism in such a process, arguing that it is critical to ignore the "siren calls of bilateral or multilateral deals". In his view, the Doha Round still only represented an incremental step in the process of trade liberalisation, ensuring ongoing benefits to developing countries and a gradual timetable for adjustment. Yet the leadership of the G4 group, as well as the acknowledgement among countries that some sacrifices will be necessary, will be required before an agreement can be reached.

*(Left to right):* **Frank Heemskerk, Humayun Akhtar Khan and Pascal Lamy**

**Frank Heemskerk** concentrated on three topics linked with the multilateral system: global governance, climate change and social importance. With regard to global governance, public authorities provide regulation and rule-making. Currently, markets are global, but governance is not. The key question is whether the international community can establish global governance, and encourage its adoption.

The Dutch Minister for Foreign Trade also challenged perceptions that open trade is a driver of climate change. He stated that trade is a solution, not a problem. He stressed that global transport is essential as foreign manufacturers usually bring in higher standards of goods. Spreading "green" technology, for example, is one job for which the trading system is needed.


*(Left to right):* **Pascal Lamy, Eduardo Sojo Garza-Aldape, Oscar Tangelson and Sten Tolgfors**

Finally, Frank Heemskerk pointed out that economic activity needs trust and confidence as well as regulation. In order for the international community to achieve growth, the WTO must also ensure governance. Meanwhile, social responsibility is vital for sustainable globalisation. Each market participant must win public trust and behave in a socially responsible way.

In a paraphrase of Albert Einstein, **Humayun Akhtar Khan** warned that "we shall require a substantially new manner of thinking if the multilateral system is to survive", thus expressing his disillusionment with progress in the current Doha Trade Round. The Pakistani trade minister was heavily critical of the recent focus on bilateral trade agreements, including a recent US-Korea accord, which he felt diverted time and resources away from the more crucial Doha goals. But Humayun Akhtar Khan also feared and lamented that this reflected where the priorities of certain countries really lay.

Humayun Akhtar Khan invoked the shared heritage of the multilateral system, qualified free trade agreements as discriminatory by nature and urged multinationals to bring pressure on governments to open their markets to developing countries. But even in the event of a successful conclusion to the Doha Trade Round, Humayun Akhtar Khan found few grounds for optimism: "progress will be limited; subsidies will be left untouched; and discriminatory tariffs against developing countries will be reduced, not eliminated".

**Pascal Lamy** spoke about the future of the multilateral system. As director-general of the World Trade Organization, he indicated that in the short term, by the end of the negotiation, we would face urgent challenges, not least of which will be to fill the promises made to the developing countries. He stressed that the multilateral system must be fair and unbiased, for then it would benefit both the developed countries and the developing countries.


Pascal Lamy remained optimistic, saying that progress was "moving forward", although slowly. He also strongly emphasised the importance of the multilateral system, saying that "we need more, not less multilateralism in the future", and that with challenges like climate change, it is essential for all members to be talking together. He used the game theory to illustrate his point: if all the 150 countries take different stands, the chance of reaching an agreement from the host of possibilities will be zero.

Pascal Lamy disagreed with the semi-conventional wisdom that the Uruguay Round was bad for the developing countries. He used the textile industry as an example. A decade after the Multi-Fibre Agreement in 1995, the global textile industry has been transformed for the better and the developing countries have benefited from the change.

There then followed two views from Latin American representatives.

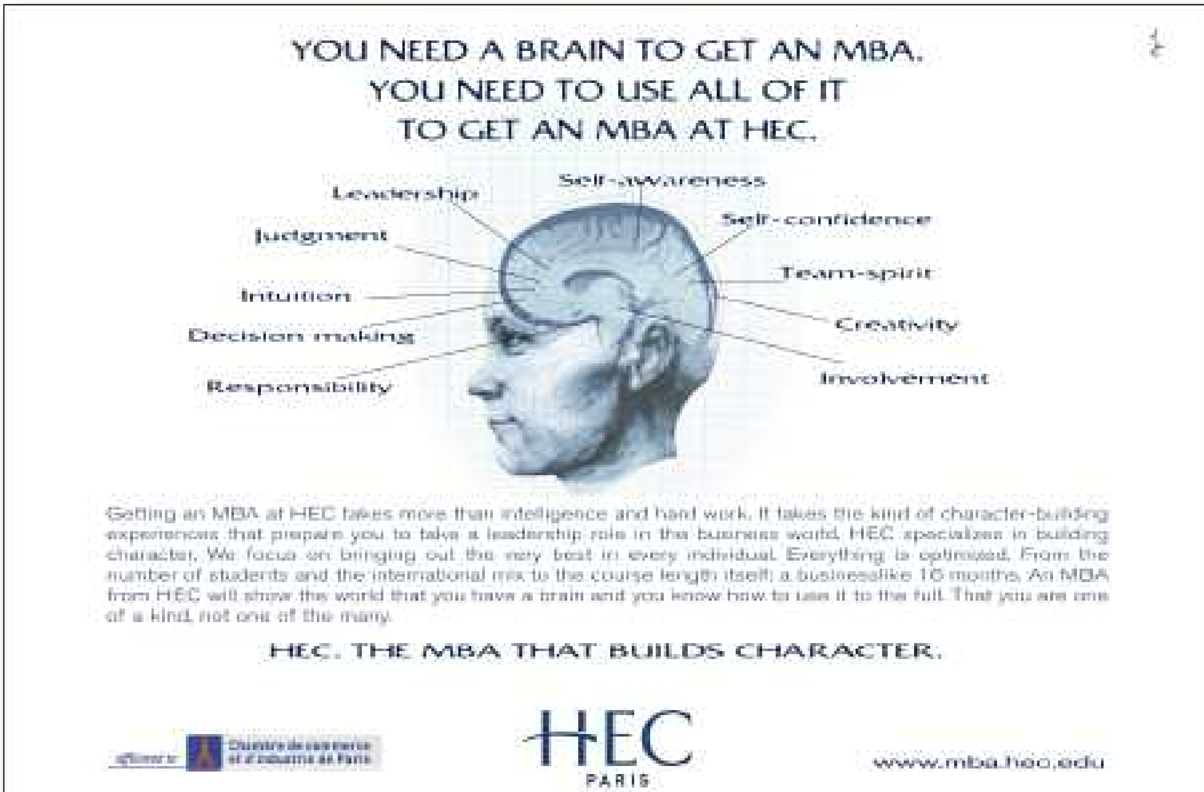
**Eduardo Sojo Garza-Aldape** laid out his stall clearly from the outset: "Mexico believes in open markets and has experience in open markets." The Mexican economy has progressed markedly since joining the OECD over a decade ago, and the minister went on to explain how trade liberalisation has helped generate those benefits. Mexico has gained greater access to markets that represent 75% of world GDP, quadrupled exports in ten years, and seen inward FDI average USD 20 billion in the past six years. But Eduardo Sojo Garza-Aldape is under no illusion that free trade is not a panacea: "just as open markets should not be blamed for a country's problems, they should not be overestimated either … a lot depends on domestic politics". But Eduardo Sojo Garza-Aldape still warned that if the Doha Round fails, the multilateral system will be reduced to a mechanism for resolving disputes, and this will inevitably generate tensions. But what is worse, in his opinion, is that failure will deny the world a new impulse to trade and economic growth and cause inequalities between countries to grow again.

"The world is undergoing a paradigm shift", in the opinion of **Oscar Tangelson,** "that is modifying the bases of economic growth and trade". Against this backdrop, Oscar Tangelson believes that the current trade negotiations display a marked lack of reflection about the concept of long-term development. Globalisation is already much more than financial and economic integration, argued Oscar Tangelson, and the world needs to reflect on the huge geopolitical and social changes that are now taking place. As a traditional agricultural exporter, Argentina clearly wants more trade liberalisation, but it also realises that it must now look both West and East. Oscar Tangelson concluded his intervention by pointing out that the emigration of well-educated workers from the developing world represents an implicit subsidy from poor to rich countries, which needs to be dealt with.

A key message of **Sten Tolgfors**' speech was the importance of trade liberalisation to combat climate change, especially by allocating more resources to biofuel and creating a global price for ethanol. Distortions such as high tariffs on ethanol imports, domestic production subsidies and a proliferation of standards are preventing countries which have a competitive advantage in biofuel products from achieving their full potential.

The minister from Sweden also emphasised the need for increased flexibility to reach an agreement in the Doha Round. The multilateral nature of such a deal was paramount, he argued, given the diverse supply lines of modern multinational corporations as well as the need to protect small countries which lack the weight to conclude satisfactory bilateral negotiations.

Questions from the floor focused on innovation and intellectual property rights. One participant wondered how Brazil and other developing countries can make generic essential medicines without suffering "retaliation" from the private sector. Pascal Lamy noted that it was a touchy topic and explained that there are two sets of rules, one for pharmaceutical producing countries, and one for non-pharmaceutical producing countries. "As for other countries", he said, "the WTO cannot dictate to member countries that ultimately choose whether or not to abide by the rules." ■

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