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OECD
BETTER POLICIES FOR BETTER LIVES

Towards a sustainable, more equitable, recovery

Decisive leadership and targeted policy action are now urgently needed

Angel Gurría
Secretary-General of the OECD

A welcome sense of cautious optimism is building around the preparations for the G20 summit in Saint Petersburg in September, setting the tone for policymakers to take a renewed interest in coordinating their national action agendas to address pressing global challenges.

Economic recovery may at last be starting to take hold, even though we are still dealing with the aftermath of the worst crisis of the century. Decisive leadership and targeted policy action are now urgently needed to reactivate employment and tackle the social consequences of the crisis.

The situation is not without risks. Advanced economies, including the US, Japan and several EU countries, are showing encouraging signs of recovery; however, major emerging economies are showing signs of vulnerability. This should come as no surprise: weak demand in advanced economies was bound to affect emerging markets and, in the process, remind us that we are all part of the same global economy.

The urgency now is for advanced economies to transform the pickup in activity into a lasting economic recovery, undertaking comprehensive reforms. No doubt, a brighter economic outlook will ease the strain on public finances and help chip away at the historically high unemployment. But such is the legacy of the crisis–some 93 million people out of work in G20 countries, a third of them long-term unemployed–that our action must be unrelenting.

For their part, emerging markets need to stimulate domestic demand and step up the pace of reform, while developing the national consensus and institutional arrangements necessary to address poverty and inequality. Above all, governments need to reassure anxious citizens, through open and transparent policies, that the social gains of the last decade will not be lost, and that the lessons of the crisis will not be forgotten.

The Russian Federation has made "restoring growth" the focal point of its G20 presidency. This means more growth through investment; growth through trade; and growth through a better policy framework, including on taxation. But it also means a more inclusive growth.

Most G20 countries face widening inequalities. In 2007-10 the average market-income inequality across the OECD area increased by 1.4 percentage points. We need to address these disparities with employment strategies, labour activation policies and support for the most vulnerable, while securing a sustainable recovery. Given how the crisis has weakened the social fabric, growth without equity is simply not an option.

The OECD has worked alongside other international organisations in support of the G20 to propose evidence-based strategies that help policymakers move discussions forward on several fronts. Let me highlight five areas where decisive action would help make the recovery sustainable and more equitable.

First are policies to promote inclusiveness. This means improving skills, opportunities, access to jobs and labour mobility. It means making the tax and welfare systems fairer and more work-friendly. It calls for investing more profit in people's well-being, and less in excessive bonuses and distorted pay structures.
Second, improve support for the most vulnerable–youth, women, low-skilled workers, long-term unemployed and ethnic minorities in particular–and help them find decent jobs. There are a wealth of examples to show how this can be done, using the likes of tax incentives, special contracts and apprenticeships, which are detailed in our reports to the G20. Initiatives in emerging economies show how basic social measures can help, such as the Child Support Grant in South Africa, and China's Employment Promotion Law.

Third, we must complete banking system reforms to boost lending and restore confidence. More remains to be done to strengthen financial sector regulation, to address contagion and too-big-to-fail risks, to improve the structure of the banking system through the separation of investment from retail banking, and to reduce the risks of default from derivatives trading. Given its relevance to achieve broader policy goals, long-term investment must also be nurtured as part of a sustainable recovery. Toward this end, and responding to the Russian G20 presidency request, we developed the first G20/OECD High-Level Principles of Long-Term Investment.

Fourth, countries must use trade to harness the knowledge, skills and technologies that sustainable growth requires. The world economy is changing, and so must traditional foreign investment and trade policies. Our work with the WTO and UNCTAD shows how trade patterns have evolved, resulting in "global value chains" which link developing, emerging-market and advanced economies together in complex multilayered production processes. By looking at trade flows from a value-added perspective, we can expose the folly of protectionism and show how, by blocking imports, countries also hurt their exports. At Saint Petersburg, the OECD will present a first report on the challenges and opportunities that trade in value-added offers for development and jobs. We need to understand how countries can move up these value chains and adjust their development policies accordingly.

Fifth, we must update our tax systems so that they are able to operate in today's global digital age. Tax revenue is vital for public

action. Profit-shifting and aggressive tax planning by global corporations–even if legal under current rules–have eroded national tax bases in several G20 countries. In July 2013 the OECD launched a comprehensive and ambitious Action Plan to respond to this challenge, aimed at revisiting the rules, standards and transparency framework applied to international taxation. In Saint Petersburg, G20 leaders will comment on this plan and review progress on automatic exchange of information on tax matters as we move toward a new, more ambitious, single international standard. The OECD has led on this front and provided the basis for meaningful outcomes, starting with the work of the Global Forum on Tax Transparency, which we should use as a building block for further efforts.

In 2008 many of us found solace in the ancient wisdom that a crisis was too valuable to waste. But so it is today with the economic recovery! We must work together and not waste this opportunity to get it right for the sake of a better future. We are looking forward to meaningful outcomes from the G20 Saint Petersburg summit.

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Readers' views

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Bad banking

The economic crisis has highlighted the lax economic regulations put in place in the banking sector, and your article reveals that deception and misconduct is still endorsed by some bankers ("Banking, ethics and good principles", *OECD Observer*, No. 294 Q1 2013).

Even more unsettling is how top bank executives and hedge-fund managers (the top 1% of the financial industry) still deal with their client companies' loans and investments. Since the deregulation of the financial sector was adopted, hedge-fund managers have been paid fees for managing their clients' money, and also a certain percentage of the ensuing profits. This has created greater incentives for hedge-fund managers to engage in extremely risky projects.

In light of the crisis and further scandals in the financial sector (including the manipulation of the LIBOR exchange) there is a collective consensus that reform in the current banking models is still needed. Too many agree that the current system of pay and bonuses are excessive, and badly attributed. Perhaps some of the top earners in the financial industry created products of high value, but there is still the justified belief that their salaries are inflated compared to their contributions to their company or the wider economy.

Capping bonuses to deter reckless bankers from taking risks detrimental to the taxpayer is the EU response, and this will come into effect in 2014. But will cities like London or Dublin, or indeed, Paris really play cricket and apply the caps? The OECD has long stressed that policymakers must regulate market failures. But as you point out, financial market companies still take up such a large chunk of the Dow Jones Industrial average. And as we know, it is no longer just that sector which is implicated. It involves the millions of financial users who rely on the health of banking; that is, society as a whole.

Mikaela d'Angelo, London, UK

Middle-class dream

Ironically, the biggest challenge now for the US middle class may be contending with the potency of the "American Dream" internationally. President Obama starkly captured this prospect in a graduation address. His audience was black but the message was clearly and accurately aimed at all young Americans who have learned how to make excuses:

"We've got no time for excuses–not because the bitter legacies of slavery and segregation have vanished entirely; they haven't," he said. "It's not because racism and discrimination no longer exist; that's still out there. It's just that in today's hyper-connected, hyper-competitive world, with a billion young people from China and India and Brazil entering the global workforce alongside you, nobody is going to give you anything you haven't earned."

The "American Dream" of endlessly rising incomes wherever immigrant families first landed was a caricature. Intelligent US Americans of every generation worry about the future–theirs, their kids', and their country's–as well as want to get ahead.

American risk-takers were invariably careful calculators.

Les Horswill, posted on www.oecdobserver.org

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It's all about growth and jobs

The OECD's contribution to the Saint Petersburg G20 summit


Gabriela Ramos, OECD Chief of Staff and G20 Sherpa

The Russian presidency of the G20–the "premier forum for international economic cooperation"–is fast approaching its climax with the leaders' summit taking place in Saint Petersburg on 5 and 6 September. By presiding over a group that represents 80% of the world's GDP and that is sometimes dubbed the "steering committee" of the world economy, Russia has used this influential position to make a significant contribution to strengthening the recovery of the world economy.

Indeed, the Russian government, under the able supervision and leadership of its Sherpa and finance teams, took on this responsibility in an ambitious and innovative manner, showing strong leadership in crafting a coherent agenda. Its emphasis on fostering growth was more than welcome in light of the very precarious prospects still faced by many G20 countries, the harsh social consequences of the crisis, and the hesitant recovery in trade and investment. In our most recent analysis, the OECD has concluded that by historical standards, the global recovery has been particularly slow, and five years into the crisis G20 countries still show a significant output gap.

As a well-established partner of the G20, our organisation has been honoured to make an active contribution to the Russian presidency. The growth theme developed by the presidency with our support helped identify the key challenges facing the world economy and develop appropriate and concrete measures to address them.

Structural reforms, jobs and investment

In a very effective process, the Russian presidency identified a number of key levers required to overcome the challenges stemming from the crisis and to foster growth. The first item on the agenda is the need for all G20 economies to engage in advancing structural measures. For some time now, the OECD has documented the fact that, given the limited room to rely on monetary or fiscal tools, structural reforms are key to stronger, more sustainable and inclusive growth. Building on our annual *Going for Growth* publication, we assisted the G20 in monitoring the implementation of countries' policy commitments on structural reforms endorsed at the Los Cabos summit. We have also played an active role in designing and enhancing the structural policy component of the new Saint Petersburg Action Plan that will be endorsed by G20 leaders at the summit.

Next on the agenda is the flagship initiative of the Russian presidency–financing for investment–aimed at reigniting investment, notably long-term investment, by harnessing and unlocking traditional and innovative sources of financing. The OECD has made a decisive contribution to this initiative and will deliver high-level principles to G20 leaders at the summit aimed at guiding policymakers in establishing an environment to encourage increased long-term investment by institutional investors.

Job creation and the enhancement of labour and employment policies have also been at centre stage under the Russian presidency. This is not surprising given that there are now 93 million jobless people in G20 countries. Together with our colleagues from the International Labour Organization (ILO), we have continued to support G20 efforts in this area, in particular by providing specific policy advice for countries on job creation activities, activation policies and support for the most vulnerable. In this context, we participated in the fourth meeting of G20 labour and employment ministers and the first joint meeting of labour and finance ministers, which were held back-to-back in Moscow in July 2013.

Ongoing G20 work on financial inclusion, financial consumer protection and financial education is an important complement to financial reform because this enables individuals to be better prepared to understand complex financial instruments and the risks they are confronting when engaging with them. The OECD has provided policy guidance on the effective implementation of the G20 high-level principles on financial consumer protection and on financial education endorsed at the Cannes and Los Cabos summits respectively. In addition, we took on an active role in the (broadly positive) assessment of the three-year implementation of the Seoul

Multi-Year Action Plan on Development (Accountability Report on G20 Development Commitments) and in the design of a road map for future G20 work on development (the Saint Petersburg Development Outlook). We continue to believe that the G20 has much to offer to low income countries for them to benefit from a stronger world economy, and from the agreements that can be reached in the context of the G20.

Establishing a growth-enhancing regulatory environment

While creating quality jobs and unlocking investment are key to boosting growth, it is also essential to address the regulatory failures that contributed to the crisis and to create a regulatory environment conducive to higher but sustainable growth. It is also important to ensure that the financial system plays the role it is called to do, to finance productive activities and to act as the conveyor belt of the economy. In this respect, the OECD made very concrete proposals under the Russian presidency to achieve its objective of growth through effective regulation.

In the field of financial regulation, we insisted on the need to complete the repair of the financial system and to restore the banks' role. We called for ambitious structural banking reforms, in particular for the separation and ring-fencing of risky (derivatives) and more traditional (retail) activities of banks. We also made the case for an appropriate recapitalisation of banks in advanced economies, notably in the euro area, by assessing banks' need for fresh capital in light of a simple leverage ratio. We welcome the fact that these bold long-standing proposals are now gradually making their way up the agenda of G20 policymakers and regulators.

An additional priority, and one where G20 countries can show strong leadership, is to foster higher rates of growth by keeping markets open for trade and investment. In this context, we have continued to provide our support, along with the WTO and UNCTAD, to monitor protectionist measures in the G20, as well as provide analytical evidence of the gains, in terms of jobs and growth, of open regimes for trade and investment. During the Russian presidency, our work on global value chains and trade in value-added has made an even stronger economic case for further multilateral liberalisation and advancing negotiations on issues such as trade facilitation by exposing the self-defeating nature of protectionism in an increasingly interconnected world.

Re-instilling trust and confidence

Last but not least, we welcomed the Russian presidency's focus on reigniting growth through trust and transparency. Indeed, one of the factors behind the weakness of the ongoing recovery is the loss of confidence and trust among citizens and economic actors in institutions, both government and markets, because of the crisis.

Upon the request of G20 leaders, the OECD is making a significant contribution to this agenda through its work on international tax transparency and tackling tax base erosion and profit shifting (BEPS). Aggressive tax planning, as well as tax evasion and avoidance, constitute serious risks, not only to tax revenues but also to tax sovereignty and tax fairness in all G20 countries. For the Saint Petersburg Summit, the OECD, together with G20 members, has developed a comprehensive and ambitious G20/OECD Action Plan on Base Erosion and Profit Shifting aimed at revisiting the rules, standards and transparency of international taxation, including double (non-)taxation and transfer pricing. Moreover, the G20, with OECD support, has committed to move to automatic exchange of information on tax matters, which G20 leaders are likely to designate as the new global standard at the Saint Petersburg summit. The tax agreements in the G20 to move to higher rules of the game are one of the most important achievements of the group, and we are proud to have played a central role in these negotiations.

More than ever, the OECD is a natural partner of the G20

The appreciation and reliance of the Russian presidency on our contributions is not only testimony to the depth, breadth and quality of OECD work, but also to its interest in making real progress on the international economic agenda. Working closely with it, the OECD has been able to make a significant contribution to the goals of the G20, through a mutually beneficial relationship. Beyond the substantive achievements outlined above, we have had the pleasure of working with a very able Russian team, and I wish to take this opportunity to recognise Ksenia Yudaeva and Svetlana Lukash in the Sherpa track, and Sergei Strorchak and Andrei Bokarev in the finance track as the brains behind pulling together this very meaningful agenda, and who have relied on the good work of OECD experts. On our side, I would like to highlight the substantive work and meaningful contributions of the relevant OECD directorates in the fields of taxes, employment, trade, investment, development, environment, anti-corruption and financial education, the leading role of our Finance Deputy, OECD Chief Economist and Deputy Secretary-General Pier Carlo Padoan, and the coordination and support of our Sherpa Office, namely Nicolas Pinaud and Andreas Schaal, who stepped in as head of the Sherpa Office when Fabrizio Pagani was appointed as the Italian G20 Sherpa and the diplomatic counsellor to Prime Minister Enrico Letta.

The very solid and strategic preparations augur well for meaningful outcomes during the G20 summit and we are glad to be part of this very relevant effort.

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It's all about growth and jobs

Priorities and achievements of the Russian G20 presidency

Ksenia Yudaeva, G20 Sherpa, Russian Federation

The Russian Federation took over the G20 presidency on 1 December 2012, a time when all international organisations and countries had downgraded their growth forecasts for the year ahead. Against this background and the need for urgent and co-ordinated policy action to put the recovery back on track, we decided to refocus the G20 agenda on the issue of growth and jobs, and to work on very concrete actions and commitments for G20 leaders to discuss and possibly endorse at the Saint Petersburg summit in September 2013. Building on previous achievements of the G20, we have hopefully made some progress towards achieving this objective during our presidency.

First of all, we emphasised the importance of kick-starting growth through quality jobs and investment, as mass unemployment and ongoing sluggish investment by corporations were (and still are) holding the recovery back.

Growth through boosting investment

In this context we made measures to boost investment a key priority for the Russian G20 presidency. Indeed, while investment by corporations has been undoubtedly held back by gloomy growth prospects, lingering difficulties in accessing long-term financing, notably anaemic banking credit, have also played a role. We, therefore, considered the ways and means of redirecting the financial system as a whole towards the financing of the real economy–particularly financing for long-term and productive investment. We investigated options and solutions for restoring the traditional role of banks–to resume lending–and of equity markets. We also considered, in parallel, tapping and unleashing new and alternative sources of long-term financing, such as the growing pools of assets held by institutional investors–pension funds, sovereign wealth funds and insurers. The OECD made a key contribution in this domain by crafting "High-Level Principles of Long-Term Investment Financing by Institutional Investors", which will be delivered together with a package of other policy measures to the G20 leaders at Saint Petersburg.

Growth through investing in job creation

We put jobs and employment centre stage during our presidency by thoroughly examining, carefully identifying and forcefully promoting possible ways for G20 countries to overcome record high unemployment. As an illustration of the magnitude of the current job crisis, some 67 million jobs would have to be generated to restore the previous employment-to-population ratio in all countries.

With the support of international organisations, including the OECD, we reviewed progress by G20 members on their previous commitments in the realm of employment, we considered job creation through sound monetary and fiscal policies, and we examined options for labour activation of vulnerable groups. We identified and shared a broad range of actions, experiences and best practices that were discussed by labour and employment ministers in July in Moscow, with the aim of promoting more and better jobs, such as by encouraging pro-growth structural reforms in product and labour markets, ensuring better matching of skills with job opportunities, and enhancing employability through quality education and effective on-the-job and lifelong learning programmes. The OECD made an important contribution to this strand of work through its report "Activation Strategies for Stronger and More Inclusive Labour Markets in G20 Countries", which gives examples of successful activation policies adapted to specific vulnerable groups in both advanced and emerging G20 countries.

Growth through open trade and investment

In a context where policymakers have very few instruments left in their fiscal and monetary toolboxes, we were also convinced that an effective regulatory environment could provide a boost to growth. In particular, giving a new impetus to trade liberalisation would represent not only a powerful but also a free stimulus to world economic growth. Enhancing multilateral trade, as part of our second overarching objective of achieving growth through effective regulation, was therefore one of our key priorities. While unlocking the stalemate in the Doha Development

Round of global trade talks was probably too ambitious and remote an objective for the G20, we wanted the group, under our presidency, to send a strong signal to the WTO Ministerial Conference (MC9) in Bali, Indonesia, in December 2013.

I believe we achieved some meaningful progress in this direction and I would like to thank the OECD and the WTO for the pivotal contribution they made to G20 discussions by building on their innovative and cutting-edge work on global value chains and trade in value-added. This work, by taking a fresh and evidence-based look at the way international trade is evolving and reshaping, and by emphasising that success in international markets depends as much on the capacity to import high-quality inputs as on the capacity to export, made the case for multilateral liberalisation even stronger.

Hence the importance of a comprehensive implementation of all trade facilitation measures currently being negotiated in the Doha Development Round–the so-called "low-hanging fruit"–that will be in the spotlight at Bali. Their implementation, the OECD reckoned, could reduce total trade costs by 10% in advanced economies and by up to 16% in developing ones.

A great deal of the market opening has been achieved in recent decades at the regional level. These regional trade agreements (RTAs) should be consistent with the multilateral system, and focus on trade creation activities. We have therefore emphasised that measures to enhance transparency regarding RTAs be also required to ensure a better understanding of their structure and features, and to help business anticipate and deal effectively with emerging changes.

The continued work of the OECD, together with WTO and UNCTAD, on tracking and monitoring new protectionist measures in the fields of investment and trade also constitutes a critical basis on which leaders will build in order to renew, as the presidency hopes and expects, their pledge to fight protectionism at the Saint Petersburg summit.

Growth through an effective, transparent framework, and an efficient and fair tax environment

A key objective of our presidency was to re-instil confidence and trust in the international economic system and to bolster growth through trust and transparency. Five years into the crisis and with a massive rise in unemployment and poverty, what most urgently needs to be restored is citizens' trust in governments, policymakers and markets. For this to happen, we need in particular to fight corruption–a major obstacle to growth in the global economy–in an efficient and intransigent manner. We also need to address tax evasion and tax base erosion, and make sure that wealthy individuals and thriving multinationals pay their fair share of tax.

The Russian presidency has been actively implementing the first year of the 2013-14 Anti-Corruption Action Plan. Under the joint leadership of Russia and Canada, the Anti-Corruption Working Group (ACWG) established standards and tools to guide the countries' progress on some of their key commitments. In particular, it adopted Guiding Principles on Enforcement of Foreign Bribery Offence, as well as on solicitation, and High-Level Principles on Mutual Legal Assistance. The OECD, thanks to its expertise and experience with monitoring the Anti-Bribery Convention and the integrity reviews, was instrumental in the elaboration of these three texts. Furthermore, the Russian presidency launched a reflection of the group on the nature and the future of the G20 anti-corruption agenda. At the presidency's initiative, the group adopted a strategic framework which identifies directions for the ACWG in the mid-term, and drawing on an issues paper prepared by the OECD on corruption and growth, we examined the fundamental rationale for the G20's engagement in this fight.

Significant progress has also been registered during the Russian presidency in the area of international taxation. No need to underline the pivotal role played by the OECD in this domain! We have made great progress with the adoption of the G20/OECD "Action Plan on Base Erosion and Profit Shifting" aimed at tackling aggressive tax planning by, and double non-taxation of, multinational corporations. On the tax evasion front, significant progress has equally been made, with automatic exchange of tax information now being recognised by the G20 as the new global standard.

Growth and inclusive development

It was also important from a global growth perspective to extend G20 efforts aimed at supporting an acceleration of growth in developing countries. In accordance with G20 leaders' request in Los Cabos, Mexico, we undertook a comprehensive and meticulous assessment of the near-complete implementation of the Seoul Multi-Year Action Plan on Development encapsulated in the G20 Accountability Report on Development Commitments. We also built the blocks of future G20 work on development by crafting and delivering the Saint Petersburg Development Outlook.

This is only a very rapid *tour d'horizon* of the multiple initiatives undertaken by the Russian Federation during its G20 presidency. But it provides a telling illustration of OECD's multifaceted contribution to our work and efforts over the past year. I wish, on behalf of the Russian authorities, to thank OECD Secretary-General Angel Gurría, his Sherpa to the G20, Gabriela Ramos, and the OECD staff involved in G20 matters for their invaluable support.

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News brief

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Education spending falters–

A trend of rising investment in education since the 1990s came to a halt during the crisis, a report shows. Spending on education is considered vital for long-term growth and good protection against unemployment, but squeezed budgets and the cost of bailouts and high unemployment have not augured well for spending on services.

In 2009-2010 public spending on educational institutions fell by 1% on average as a percentage of GDP across the OECD area. Drops of more than 2% were seen in Estonia, Hungary, Iceland, Italy and the Russian Federation. It decreased by 2% or less in Austria, Ireland, New Zealand, Norway, Portugal, Spain and the US. Education budget cuts took place in 2011 and 2012 in 15 OECD countries.

The report, entitled *Education at a Glance*, shows that while unemployment has risen among people with tertiary qualifications, it remains well below the rate of those with secondary qualifications or less in most countries, particularly for 25-34 year-olds.

See charts at www.oecd.org/newsroom/value-of-education-rises-in-crisis-says-oecd.htm

www.oecd.org/oecdeconomicoutlook

–as business start-ups are sluggish

Business start-up rates remain below pre-crisis levels, as entrepreneurs continue to suffer from restrictive lending conditions, according to the latest issue of *Entrepreneurship at a Glance*.

The data show start-up rates are particularly low in Spain, with tentative signs of a pick-up in Australia and the UK. In France they have been boosted by measures to ease bureaucracy and improve tax incentives for the self-employed.

Nor has the number of business closures fallen back from rapid rises in the wake of the crisis, says the report. However, attitudes to business failures have become less stigmatised, with a growing public awareness of the role entrepreneurs can play and the value of giving a "second chance", the report finds.

www.oecd.org/std/business-stats/entrepreneurshipataglance.htm

Soundbites

Colombia's class

"We made it into the best university because we passed all our courses… Only the best [countries] are invited [to join the OECD] and Colombia is among them."

Juan Manuel Santos, President of Colombia, in *El Tiempo*, 30 May 2013

Taxing times

Achieving international tax reform takes time. It could take the OECD up to three years to draft proposals to reduce tax avoidance. But it could take governments far longer, first to agree and then to implement any new international tax code.

Opinion, *The Irish Times*, 1 August 2013

Fragile recovery

If we start bashing growth again, who will invest? Who in our societies would back reform? We can do a lot without having to weaken the economy: on retirement, skills training, competition in services, making public sector services more efficient…

Jean Pisani-Ferry, Commissaire général à la stratégie et à la prospective, in *Le Monde* 19 August 2013

New media ain't enough

"People will give up food and the roof over their head before they give up TV"

21st Century Fox chief, Chase Carey, in *Financial Times*, 8 August 2013

Economy

Leading indicators released in August pointed to growth picking up in the US, Japan and the EU, but slowing in Brazil, China and Russia. For India the leading indicators suggested tentative improvements ahead. OECD composite leading indicators are based on the likes of order books, building permits and long-term interest rates, and help anticipate trends and turning points in economic activity.

Meanwhile, quarterly GDP in the OECD area grew by 0.5% in the second quarter of 2013 (and 0.9% compared with a year earlier), compared with a quarterly rise of 0.3% in the first quarter. Most major G7 countries contributed, with growth of 0.7% in Germany, 0.6% in Japan and in the UK, 0.5% in France and 0.4% in the US. GDP contracted by 0.2% in Italy.

OECD-wide **inflation** rose by 1.8% in the year to June 2013, compared with 1.5% in the year to May 2013. This slight increase reflects rises in energy prices by 3.4%, and in food price inflation which accelerated to 2.2% in June, compared with1.9% in May. Nevertheless, excluding food and energy, the OECD annual inflation rate eased to 1.4%, from 1.5% in May.

Merchandise trade grew in the world's major economies in the first quarter of 2013. Compared to the fourth quarter, the value of merchandise exports and imports for the G7 and BRICS countries increased by 1.3% and 2.8%, respectively.

The OECD area's **unemployment rate** eased to 8% in May 2013, unchanged for the third consecutive month, leaving 48.5 million people out of work. The

Country roundup

An OECD report, *Skills beyond School* gave the **United States** high marks in post-secondary education but said the country should improve career and technical training provisions to help students make a smoother transition into work. The review of **Austria** praised the country's vocational education and training systems while calling for more diversity. Meanwhile, *Post-Secondary Vocational Education and Training in* ***Germany*** says that despite advanced vocational training, compulsory standards in teaching and examination were needed.

France, though the 4th largest aid donor in the OECD's Development Assistance Committee, remained below its international commitment of 0.7% of gross national income. Currently at 0.46%, the OECD urged France to reach its target as soon as possible.

Norway could do more to improve incentives and opportunities for people to stay working longer, according to *Ageing and Employment Policies: Norway 2013, Working Better with Age*.

Portugal's enforcement of its foreign bribery laws has been too weak, according to the OECD Working Group on Bribery's "Phase 3 report" on implementing the OECD anti-bribery convention. Not a single prosecution has resulted from 15 allegations of Portuguese companies bribing foreign officials in high-risk countries. A similar report on Poland said the framework for fighting foreign bribery there remains inadequate for the country's growing economy.

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His Royal Highness Crown Prince Haakon of Norway gives the opening speech at OECD Week, 28 May 2013; See p53

The Russian Federation's official statistics are compiled with a high degree of professionalism and now have a solid legal basis, but their scope, timeliness and international comparability needs to be improved, according to the OECD Assessment of the Statistical System and Key Statistics of the Russian Federation.

Mexico, which regularly faces earthquakes, tropical storms and floods, should do more to avoid future losses and at the same time support sustainable economic development, according to the *OECD Review of the Mexican National Civil Protection System*. Nevertheless, the country has improved its institutional and operational preparedness to manage these disruptive events, the report says.

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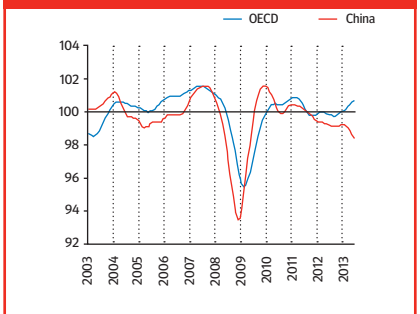
unemployment rate increased by 0.1 percentage points to 7.6% in the US, stabilised in Japan at 4.1% , but reached new highs in the euro area of 12.2%. The OECD area youth jobless rate slipped 0.1 points to 16.3%, and was a full percentage point below the peak of October 2009.

The OECD area **employment rate**, meanwhile, was stable compared with a year earlier, at 65.1% in the first quarter. It steadied in the US at 67.3% of working-age people, and in Germany, at 73.1%, though rose by 0.3 percentage points to 71.2% in Japan.

OECD and China leading indicators



Source: OECD

Visit www.oecd.org/statistics for updates

Tax action launched

A two-pronged assault on tax avoidance was launched in July. First, OECD's 15-point Action Plan on Base Erosion and Profit Shifting (BEPS) was issued, targeting gaps that multinationals use to artificially reduce their taxes. Produced at the request of the G20, the action plan aims to help governments prevent corporations from avoiding taxes, while giving businesses clarity too. The plan complements the second strand, to boost transparency and co-operation via a new automatic information exchange platform. See articles on pages 20-25. www.oecd.org/tax

Upwardly mobile

Revenues from mobile data services are growing at double-digit rates in most OECD countries and, with a surge in broadband wireless subscriptions, drive growth among network operators. But policymakers and regulators might need to intervene to ensure there is enough supply to meet demand, *Communications Outlook 2013* warns, in a call for more competition.

Trade aid

"Aid for trade" could further help developing countries reduce trade costs, improve performance and plug into the global value chains, a report from OECD and the WTO argues.

The report says that donors have disbursed over US$170 billion in aid for trade since 2006, and annual commitments reached $41.5 billion in 2011, 57% above the 2002-05 average.

Plus ça change...

The bulk of mathematics included in the traditional curriculum for primary and secondary school students dates from before 1760. And this is so despite the fact that in the intervening years (and particularly since 1900) there has been a revolution in mathematical thinking. The result is that the average secondary school graduate is 200 years behind the times.

Prof Howard Fehr, from "Mathematics teaching to meet tomorrow's needs", in Issue No 3, March 1963

OECD Observer

Putting tax transparency and morality on the agenda

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Whether you are a policy maker, business leader, politician, journalist, tax authority or just a regular citizen, the issue of tax is probably high on your agenda.

Over the past few years, there has been a fundamental shift in the way that people view tax. Today, tax and the issue of paying your fair share is one of the most prominent areas being scrutinized by governments, the general public and, to a great extent, the media. Just like corporate responsibility and environmental issues, significant brand damage can occur if there is a perception that a company's tax affairs are overly aggressive or 'unfair'.

As the public looks to businesses to 'do the right thing', expectations for more transparency are increasing. Coverage of the inadequacies of Greek revenue collection, public demonstrations in the UK, renewed scrutiny from US government committees and an investigation into the tax and financial affairs of a former French Budget Minister have kept taxation in the news spotlight. And while these may just be flashpoints, they clearly demonstrate that the scrutiny on tax transparency and morality is not going away.

Tax on the global agenda

While the debate has tended to focus on corporations and high net worth individuals, the reality is that governments, tax authorities and policy makers must also shoulder some of the responsibility. In part, this is because current tax systems have not kept up to date with changes in business models and practices. At the same time, it must also be recognized that many countries use their tax systems to compete for investment dollars and jobs, and to benefit the foreign activity of their own multinationals.

Thankfully, there are a significant number of international meetings involving the EU, OECD, G8 and G20 where tax is on the agenda. Some are likely to focus on evasion, others on international tax rules. Regardless, business leaders can expect to see a myriad of scoping documents, discussion papers and communiqués at the country, secretariat and forum levels.

The fact of the matter is that, with respect to tax, businesses need an environment that offers regulatory stability and certainty. To this

end, KPMG member firms around the world applaud and support the current and future work of the OECD.

Much good work has already been done on the global stage over the past few decades to address any number of tax issues. But, now more than ever, it is essential that collaboration between countries and the relevant authorities takes place. This will be difficult to achieve, and the potential for unintended consequences is high. But through proper dialogue, communication and openness, KPMG's member firms believe that resolutions can be found.

A critical business issue

Without a doubt, this ever-shifting debate and tax environment creates significant complexity. Indeed, with their very reputations and relationships on the line, business leaders will need to focus on ensuring that their organizations are not only acting responsibly in the eyes of their stakeholders, but also reinforcing their ability to comply with possible further reporting obligations.

In my role as KPMG's Global Head of Tax, I have joined many of my tax colleagues from around the world to talk with business leaders, tax authorities and other influencers about the issues surrounding this debate. Based on this dialogue and information gathering, we believe that there are four key actions that public company business leaders – boards and the full C-Suite – regardless of industry or geography must take seriously and address now:

1. **Ensure you are fully informed:** Keep abreast of developments that will occur at the local country and international level. Consider how these developments could affect the tax positions and planning undertaken by your company.

2. **Plan for public discussion and develop a tax narrative:** Be prepared to comment on your business and tax activity at any given moment (a particularly important capability in the era of social media).

   Ensure board members, management/C-Suite members and the core tax team are aware of the potential questions and challenges that could come from any number of stakeholders such as regulators, investors, media and the general public.

3. **Think reputational risk:** Ensure that decisions around tax are made taking into account potential reputational risks and not simply whether your organization has complied with the tax law in various jurisdictions.

4. **Assess your company's relationship with tax authorities:** Ensure that there is appropriate, open and respectful relationships with local tax authorities in all jurisdictions in which you operate. Ensure that you put in place processes to support discussions with the tax authorities, including paper support and documentation exchange and appropriate communications channels. The bottom line is that the costs of early preparation tend to be significantly smaller than a path of long-term conflict and litigation.

All signs suggest that we will continue to see increased pressure for more transparency between taxpayers and the tax authorities, and more disclosure by public companies as to the amount of their tax payments and where those taxes are being paid.

Ultimately, business leaders, tax authorities and policy makers will need to remember that this is a changing world and one can resist the change or embrace it. The problem with the former is that one tends to get left behind. Do not become complacent: this issue is not going away.

For more information, please visit

www.kpmg.com/tax

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Sustainable growth, equity and fiscal balance

Though optimism about a recovery may be rising, the global crisis has left deep scars and placed economies of all levels and sizes under severe strain. Achieving long-term, inclusive, growth is a key goal of OECD countries and a central theme of the Russian presidency of the G20. Reforms are essential for achieving that goal, though other measures, in fiscal policy for instance, could help too.

In our 11th OECD Observer roundtable, we asked the finance ministers of Russia, Finland, South Africa and the United Kingdom:

"What fiscal action are you taking to achieve sustainable growth, while improving equity and balancing your country's finances?"

Saint Petersburg, venue of the 2013 G20 leaders' summit

Russian Federation
Building sound principles

Anton Siluanov, Minister of Finance, Russian Federation

©OECD

After the crisis of 2008-2009 Russia like many others faced a dual task–to restore economic growth and at the same time to achieve fiscal consolidation. Actually the both problems were resolved–as early as 2011 Russia re-ran a budget surplus with GDP growth rate around 4.5%, while decreasing the level of budget expenditures. This practice indicates that responsible fiscal policy can not only be consistent with economic growth, but also accommodate it. However, in many cases, overcoming the debt crisis consumes a lot of time and resources in the end. Against this background, sound fiscal policy and debt management as the primary preconditions for sustainable economic growth were proposed for the discussion by Russia's G20 presidency. Our government set a supplementary goal–to create institutional conditions to prevent budget risks and maintain macroeconomic stability. An update of budgetary rules' has been implemented this year. It provides for, first of all, defining the marginal amount of government expenditures based on the long-term average oil price (rather than on the forecast nominal price). Secondly, federal government net borrowing is limited to 1% GDP.

Under severe restrictions, the need emerged to raise the efficiency of expenses and redirect them to priority areas, including main structural reforms. From next year, the federal budget will be drawn up with the help of budgeting software, which will allow us to link budget outlays with target parameters of socio-economic development. The three-year budget adoption will be extended to the regional level. As early as this year a long-term fiscal strategy will be worked out on the federal level, ensuring co-ordination between the limits of spending for certain projects and the total predicted amount of resources. Enhancing the state procurement system, budget institution network and the number of public officials, as well as improving the targeting of social safety net, should contribute to raising the effectiveness of budget spending.

Fiscal and budgetary instruments will be used simultaneously to promote economic growth. We are making the payment of taxes more convenient: in this regard, Russia has risen by 31 points in just one year in the World Bank Ease of Doing Business ranking. In order to attract investment, personal property and energy-efficient plant and machinery have been exempted from taxation; bonus depreciation mechanism has been improved. We continue our efforts to promote "de-offshorisation" and to reduce the informal sector of the economy–international tax treaties are being improved and limitations on cash-flow are to be introduced. At the same time, the regulatory framework for public-private partnership is being modernised (which includes investing resources from the Sovereign Wealth Fund). The government took the decisions aimed at the making of the access for foreign companies to the Russian financial market easier and establishing a "mega-regulator" of the financial market, based on the Bank of Russia.

We confidently expect that these new fiscal policy principles will provide the basis for long-term, sustainable economic development.

Visit www.minfin.ru/en

Finland
A sense of perseverance

Jutta Urpilainen, Minister of Finance

©Håkan Dahlström

In Finland we want to improve the sustainability of public finances using three methods: by increasing the growth potential, prolonging working careers, and cutting the debt-to-GDP ratio by using the required fiscal policy measures.

Finland was among the first countries to adopt earned income tax credits (EITC) to promote employment. "Make-work-pay" policies were the central idea in developing the social benefit and tax systems when Finland was recovering from the previous recession. After the introduction of the EITC, successive governments have increased and widened the credit. For sure, we know that hundreds of thousands of new jobs have been created. However, it seems difficult–despite research–to show how much the EITC has actually improved employment.

In Finland, we have a long tradition of paying high taxes on earnings. In a way this is a good thing, since the tax is levied according to the ability to pay and therefore does not give rise to income inequality. As a contrast to taxes on earnings, the VAT and other consumption taxes (which are also actually labour taxes), which are regressive in nature, tend to increase income inequality over time.

It is important to keep income inequality low in order to maintain cohesion in society. It promotes co-operation and hence wellbeing and confidence. Even a small nation can be both economically and socially successful when the people are united.

I'm the minister of finance in a government which has to operate in an extremely difficult economic situation. There are not many tools left in the tax toolbox when almost all revenues are needed to keep society going and almost nothing is left to stimulate the economy. In spite of this, we have succeeded in working some magic. We wanted to boost firms to survive the tough times. The statutory corporate income tax is being cut by 4.5 percentage points and tax reliefs are given for R & D investments. These measures aim to promote long-term growth. Although we know that others have taken similar measures, at the end of the day, it is in our Finnish Sisu (our perseverance) that we trust.

Visit www.vm.fi/english

South Africa
Lowering the costs of living

Pravin Gordhan, Minister of Finance

©South Africa Government Service

The South Africa agenda is focused on national development, economic growth and fiscal sustainability. The public sector plays the leading role in ensuring that growth is inclusive. Our response to the global crisis has been to ensure the sustainability of public services, while improving South Africa's competitiveness for faster and more inclusive growth.

The government's National Development Plan (NDP) embraces the central priorities of public policy: eliminating poverty and reducing inequality with a focus on lowering the costs of living and doing business, increasing exports, creating more jobs and making economic growth more inclusive. A growing collaborative dialogue between government, the private sector, trade unions and civil society is needed to make the plan a reality.

South Africa's fiscal framework seeks to achieve the following key objectives:

- Support for economic recovery: Since the recession of 2008, the budget has supported economic activity. Social spending continues to increase in real terms and moderate tax relief has been granted, especially for small business. But the fastest growing elements of expenditure include support for economic growth, especially infrastructure and job creation projects, as well as manufacturing competitiveness.

- Securing fiscal sustainability: South Africa's fiscal response to the crisis has been large and sustained over a longer period. Fiscal space has narrowed but spending is set to growth at a moderate pace in line with the increase in potential output. Ensuring that we stabilise debt means that counter-cyclicality in the short term is balanced by a stronger medium-term path of consolidation. The need to restore fiscal sustainability also requires consideration of the revenue side of the budget, and the tax policy review currently under way will assess whether present tax policy is appropriate for long-term fiscal sustainability.

- Social wage: The NDP recognises that reducing the cost of living is essential for broadening economic participation and eliminating poverty. Alongside the "economic wage" earned through

work, the "social wage" provided by government is a steadily rising contribution to the living conditions of working people and their families.

The best way to generate resources to implement the national vision is to grow the economy more rapidly. But we live in challenging times. A sound fiscal framework supports the sustainable financing of government spending, while progressive alignment between departmental budgets and the objectives of the NDP will bolster government's contribution to development.

Visit www.treasury.gov.za

United Kingdom
A commitment to fairness

George Osborne, Chancellor of the Exchequer, United Kingdom

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The UK economy is recovering from the most damaging financial crisis in generations after a decade of growth built on unsustainable debt. The historically high level of borrowing undermines fairness, growth, and economic stability in the UK. My economic strategy is designed to deliver strong, sustainable and balanced growth, while restoring the public finances to a sustainable path.

The government is delivering an ambitious programme of growth-enhancing reforms to support a sustainable recovery. Our plan focuses on tax competitiveness, business growth, workforce skills, and rebalancing towards investment and exports.

Consistent with these aims, we are emphasising long-term investment in infrastructure by committing to publicly fund a pipeline of specific projects worth over £100 billion (over US$150 billion) by 2020. Our spending commitment means that public investment as a share of GDP will be higher on average over this parliament and the next, collectively, than under the previous government.

The economic strategy is underpinned by a commitment to fairness. Our policies ensure that those with the broadest shoulders continue to make the biggest contribution to fiscal consolidation. Analysis shows households in the top income quintile will make the greatest net contribution towards reducing the fiscal deficit.

We want to support those who aspire to work hard to support their families and grow their businesses. The government has brought forward the delivery of our commitment that the first £10,000 of income is free from income tax. By April 2014, 2.7 million low income individuals under 65 will have been lifted out of income tax altogether.

In addition, we are boosting investment and competitiveness through a major programme of corporate tax reform, including by reducing the main rate of corporation tax from 28% to 20% between 2010 and 2015.

The UK has taken a leading role in the OECD Base Erosion and Profit Shifting project which provides a coordinated and comprehensive approach to reform of the international tax rules to create a level playing field for all. To promote greater transparency, we are engaging with others to develop a new global standard for the automatic exchange of tax information.

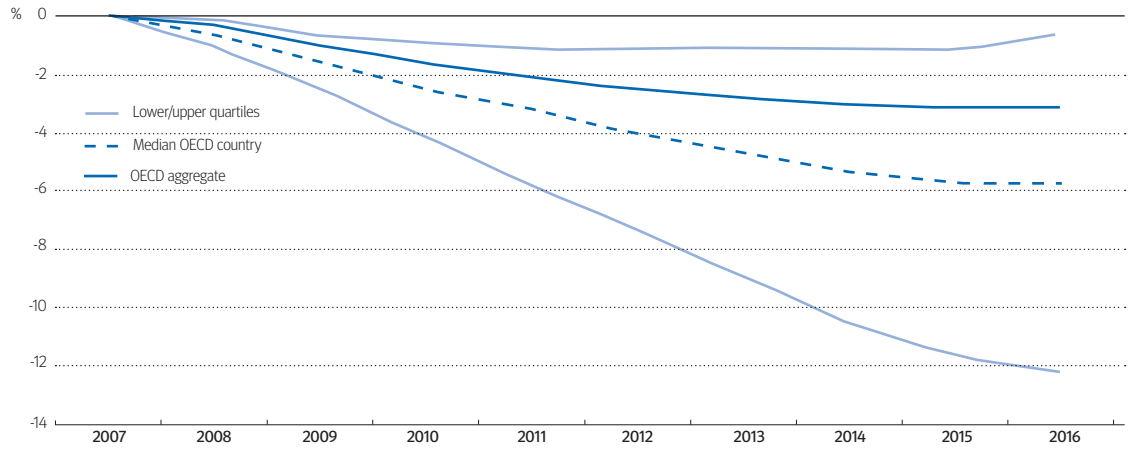
The UK, like many other countries, has had to make some difficult decisions to promote growth while responsibly putting the public finances on a sustainable path. There is evidence that our economic strategy is working. Our public sector net borrowing has fallen by a third as a percentage of GDP since 2009-10. Over 1.3 million private sector jobs have been created since 2010. GDP growth in the latest quarter was at average trend levels. There is still a long way to go, but Britain is on the mend.

Visit www.hm-treasury.gov.uk

A lasting scar

Estimated effects of the crisis on the potential output of OECD countries

Percentage reduction in potential output relative to pre-crisis trend



Source: *OECD Economic Outlook* No 93 long-term database.

StatLink http://dx.doi.org/10.1787/888932836658

The Great Recession—the financial, economic and social crisis that started at the end of 2007—has proved to be one of the longest and deepest in half a century, and so it is no wonder that news of a recovery has been greeted with such enthusiasm. But will the recovery be strong enough to help put OECD economies back on a pre-crisis growth path?

Possibly not, according to calculations in the latest biannual *OECD Economic Outlook*: such was the extent of the crisis that it is likely to have resulted in a permanent loss in the level of potential output for most OECD countries. Even with a continuing recovery, the report warns, GDP may not catch-up to its pre-crisis trajectory.

The extent of these losses is very uncertain, the report says, in part because of policy changes which may have added to the effects of the crisis, and other unknowns. But if current estimates of potential output per head of the working population are compared with an extrapolation of the pre-crisis trend over 2000-2007, and if demographic factors are taken into account, then it is likely that the crisis caused aggregate OECD-wide potential to fall by just under 3%.

That's an overall figure, with the effect on some countries being worse than on others. The estimated effect of the crisis on the median OECD country is about double the effect on the area-wide aggregate, according to the calculations, reflecting that smaller countries have typically been hit harder than larger ones (see graph). On this basis, the effect of the crisis on potential has been small in Japan and Germany, and reduced output by less than 2.5% for the US. The crisis also had a relatively small effect on Austria, Australia, Israel, Mexico and Switzerland. However, the estimated effect is to reduce potential output in 2014 by more than 10% for Czech Republic, Hungary, Ireland, Iceland, Slovenia, Estonia, Greece and Luxembourg. This could be an underestimate for a few countries, notably Ireland and Spain, which have experienced a particularly marked slowdown in the growth of the population of working age. One likely cause of this was a sharp decline in net immigration flows, which was not included in the OECD Economic Outlook calculation. If it were, then the effect of the crisis on potential output in these countries may be larger still.

OECD Economic Outlook No 93, May 2013. Visit www.oecd.org/economy

Not so fast

Interview with John Evans, General Secretary, TUAC

©TUAC

The last few months have been marked by slightly better news on the economy, with signs of a recovery in the EU area in particular. But these are early days and challenges remain. John Evans, General Secretary of the Trade Union Advisory Committee to the OECD (TUAC), is not holding his breath. He explains why to the OECD Observer.

OECD Observer: How encouraged or worried are you about the current global economic situation?
John Evans: The trends are very worrying. OECD and IMF growth forecasts have now been revised downwards six times since 2010. Stalled or declining global growth, rising unemployment, increasing income inequality, insufficient progress on financial regulation, the erosion of tax bases and unabated climate change constitute central global challenges faced by the G20 leaders' meeting in Saint Petersburg. The deficiency in global demand is reinforced by a lack of confidence when almost 60% of people claim that their income has not kept pace with the cost of living in the last two years. This is eroding trust when 50% of working families have been directly impacted by the loss of jobs or a reduction in working hours.

Have G20 governments addressed the causes of the crisis from a social point of view?
The G20 have not done enough to address the causes of the crisis. Instead of strengthening labour institutions and social protection, many G20 governments panicked in the face of financial markets and chose austerity measures that only deepen the crisis and cause recession. As a result, the G20 has lost ground and trust in its ability to co-ordinate the policies necessary to pull economies out of the crisis, as commitments appear not to be acted on. People feel abandoned by their governments, with 80% of people indicating that their government has failed to tackle unemployment, and only 13% of people feeling that their government is acting in the interests of working people.

What advice would you give?
Leaders have the opportunity at the Saint Petersburg G20 Summit, building on the July labour and finance ministers' joint conclusions, to restore the public's faith in global economic policy co-ordination. The G20 should take co-ordinated action to kick start recovery towards job-centred, inclusive, green and sustainable long-term growth. G20 governments have to live up to past summit commitments and take action to support domestic demand by investing in education, innovation and infrastructure. Measures have to reduce income inequality and create quality jobs.

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Emerging unrest

©REUTERS/Ueslei Marcelino

Until now considered a model in terms of reducing poverty and inequality, Brazil has recently faced the wrath of hundreds of thousands of protesters from across all sections of society, riling up against inflation, while calling for better access to health care, education and other public services. OECD analyst Horacio Levy explains.

Recent trends in the reduction of poverty and inequality in Brazil have been impressive. However, the starting point was so high that, despite all the promising results, there is still a long way to go. The protests highlight that there is no room for complacency. Brazil is still a very unequal country in which the vast majority of the population does not have access to public services of a reasonable quality, particularly health, education and transport. The unease with the government's spending on the 2014 football World Cup and the rise in bus fares shows that there is a strong demand for public resources to be better used and targeted to people's needs.

Better access to better quality public services is the biggest challenge facing the emerging middle class. Despite their increased purchasing power, they find it difficult (if not impossible) to get into the elite schools, universities and hospitals (public and private) that the upper middle class and the rich use. Having emerged to middle class status, this part of the population now feels empowered to demand access to quality services.

The Brazilian government has recently been targeting more resources to these areas. Education and health expenditure as a proportion of GDP have increased in the last decade, respectively from 3.9% to 5.6%, and from 3% to 4%, according to World Bank estimates. However, the quality of services is still very deficient. Further resources, and much better management to reduce inefficiency, waste and corruption, are now required.

Related stories

- Brazil has made progress in recent years in improving the quality of life of its citizens, as Brazilians are generally more satisfied with their lives than the OECD average, according to the *OECD Better Life Index* on Brazil, www.oecdbetterlifeindex.org/countries/brazil/
- A strong economy has helped some 30 million Brazilians join the middle class over the past decade, as the national GDP has grown continuously, despite the international crisis. Cesar Cunha Campos, Executive Director of the FGV Foundation, explores Brazilian optimism "In Brazil, Better Lives", in *OECD Observer* No 290-291, Q1-Q2 2012, available at www.oecdobserver.org
- Urban middle class youth is in revolt in Brazil, Turkey and other fast-growing countries. Protests may destabilise governments in the short term but could ultimately strengthen democracy, argues Helmut Reisen, former research head at the OECD Development Centre, in "Emerging middle-class blues", available on www.OECDInsights.org

This comment appeared first on www.OECD.org, June 2013

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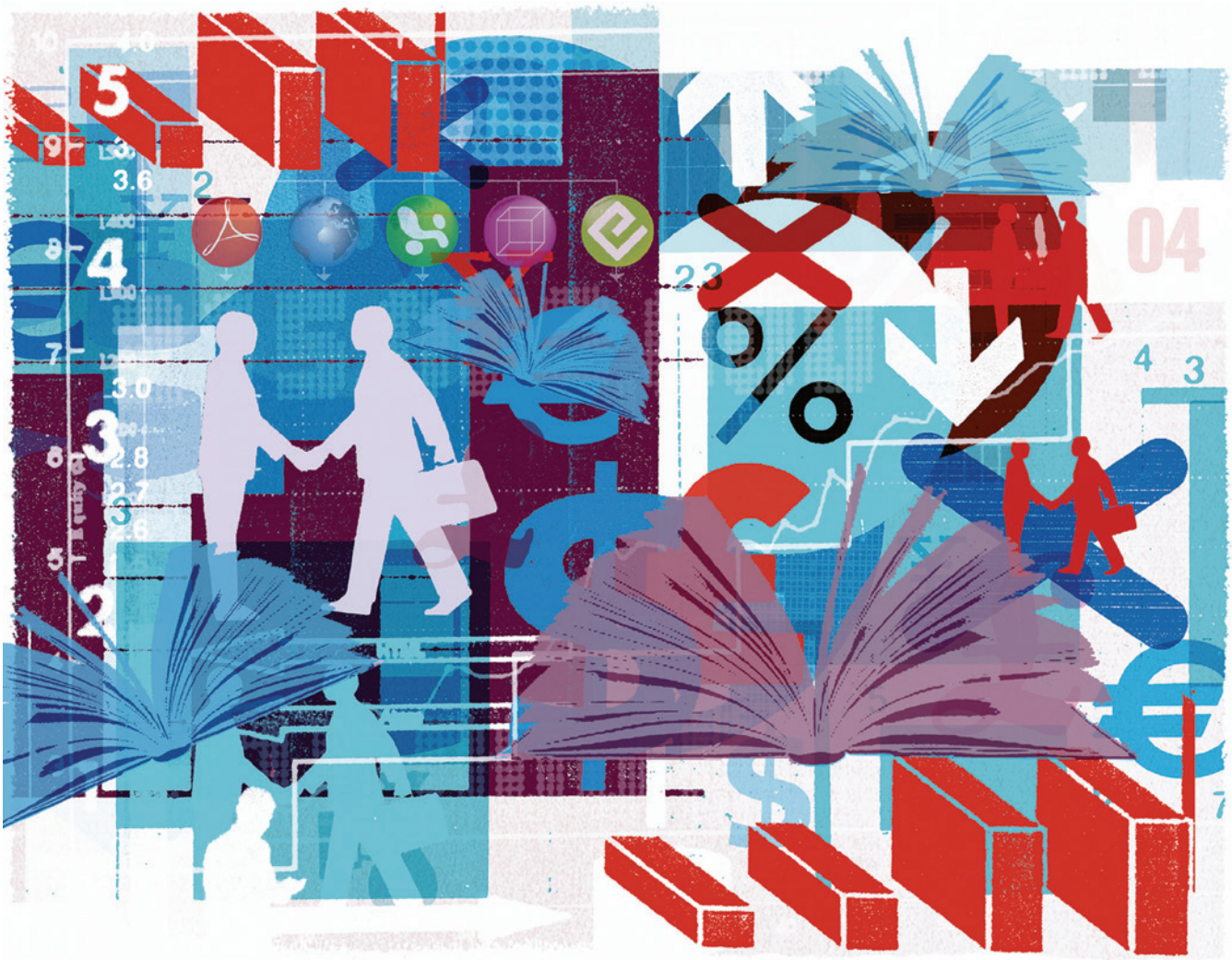

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OECD
BETTER POLICIES FOR BETTER LIVES

Business brief

With more tax information, governments should strive to better understand business

The Organisation for Economic Co-operation and Development (OECD) has long played a leading role in facilitating the exchange of tax information by tax authorities. The publication on 18 June of a proposed framework for developing a standard multilateral model for automatic exchange of financial account information was another significant milestone in the broader conversation about tax information exchange and transparency.

The proposed framework, modeled after the Foreign Account Tax Compliance Act in the United States, would require a global partnership between financial intermediaries and tax authorities of multiple countries, with the private sector investing resources to provide assistance to tax authorities on a global scale for the first time.

Implementing the framework would require substantial changes in systems and processes for most financial services organisations. It should also prompt careful consideration by tax authorities of how they can best use the information that would be obtained through the proposed mechanism and how they can minimise the burden imposed on financial services firms in providing needed tax information.

Additional tax transparency between businesses and governments can be appropriate and productive, particularly when it leads to greater mutual understanding of the needs of both tax administrators and taxpayers, and creates a more consistent approach that reduces uncertainty for all parties.

Tax authorities need to know a company's income and expenses, and taxes paid. But sometimes the company can benefit if the tax authorities understand more about their business. This greater understanding can help authorities understand the fuller context for tax positions taken.

Companies need to be open and responsive with the relevant tax authorities. But the prudent company will go beyond merely reacting and will consider where it is appropriate to be proactive in their dealings with the tax authorities. Companies of course need to answer the questions that the tax authorities ask. And sometimes companies should raise and answer the questions that the tax authorities may not have asked yet.

For example, a company might benefit from taking a more open and proactive approach toward disclosure and discussion with tax authorities of its transfer pricing arrangements. Regulatory change often causes material change to business models and group structures, and uncertainty around tax issues may cause enterprises to make suboptimal business choices. Helping the tax authorities and companies to best understand the regulatory landscape and how organisations are likely to change in reaction to it would likely lead to a more constructive relationship.

Any new push to require wide-scale public release of tax information would be counterproductive to the constructive dialogue between taxpayers and the tax authorities. The need for greater transparency and more information is about constructive and productive taxpayer to tax authority dialogue, not something that should play out on the public stage.

It is essential that confidentiality is maintained as transparency must be built on mutual trust. Fears that commercially sensitive information could potentially be released would undermine such trust.

It is also important that any new transparency requirements be agreed on a multilateral basis; the unilateral adoption of "custom" country-specific requirements on an isolated basis would further increase the compliance burden for business. To that end, the OECD deserves recognition for stressing the need for coordinated action and a multilateral approach to tax information sharing.

Building more trust between companies and tax authorities will help inform the current public discussion of tax issues, creating a more fruitful conversation about tax policy choices for the 21st century.

The business community and tax authorities share a common interest in the objective of having tax systems that are suited to the ever-changing global business environment, that provide certainty to business and that can be administered by tax authorities across geographies. Transparency between taxpayers and tax authorities can contribute to achievement of that objective.

Revitalising international taxation

The OECD Action Plan on Base Erosion and Profit Shifting: A summary

Governments' budgets have taken a heavy blow in the global economic crisis, as they have had to foot the bill of corporate bailouts and massive rises in unemployment. Policymakers had little choice but to squeeze public services and jack up income and consumption taxes. So it is little wonder that politicians and their electorates were enraged when news broke revealing that some of the world's largest and most profitable corporations, some of them icons of the new economy, paid little or no tax at all, including in countries where they pulled in massive profits.

International tax rules, many of which were first designed over a century ago, have failed to keep up with globalisation and technological change. Today, they have begun to reveal weaknesses that legally allow companies to record profits, and consequently their taxes, in lower tax jurisdictions where their businesses are present. This profit shifting has eroded sovereign tax bases, and weakened the hand of already struggling public authorities. Businesses have an obligation to maximise profits for their shareholders, so the burden of action falls on governments to fix their tax systems and work together to forge a global approach that reflects today's financial world. At the request of G20 finance ministers, the OECD has produced its 15-point Action Plan on Base Erosion and Profit Shifting (BEPS) that will help ensure that multinationals pay their fair share of taxes.

The following points present a summary of these. For the full text issued in July 2013, visit www.oecd.org/ctp/beps.htm

ACTION 1: Address the tax challenges of the digital economy. A dedicated task force will identify the issues raised by the digital economy and possible actions to address them. Work will focus on a thorough analysis of the different business models, the ever-changing business landscape and a better understanding of the generation of value in this sector, including from an indirect tax point of view.

Ensuring coherence

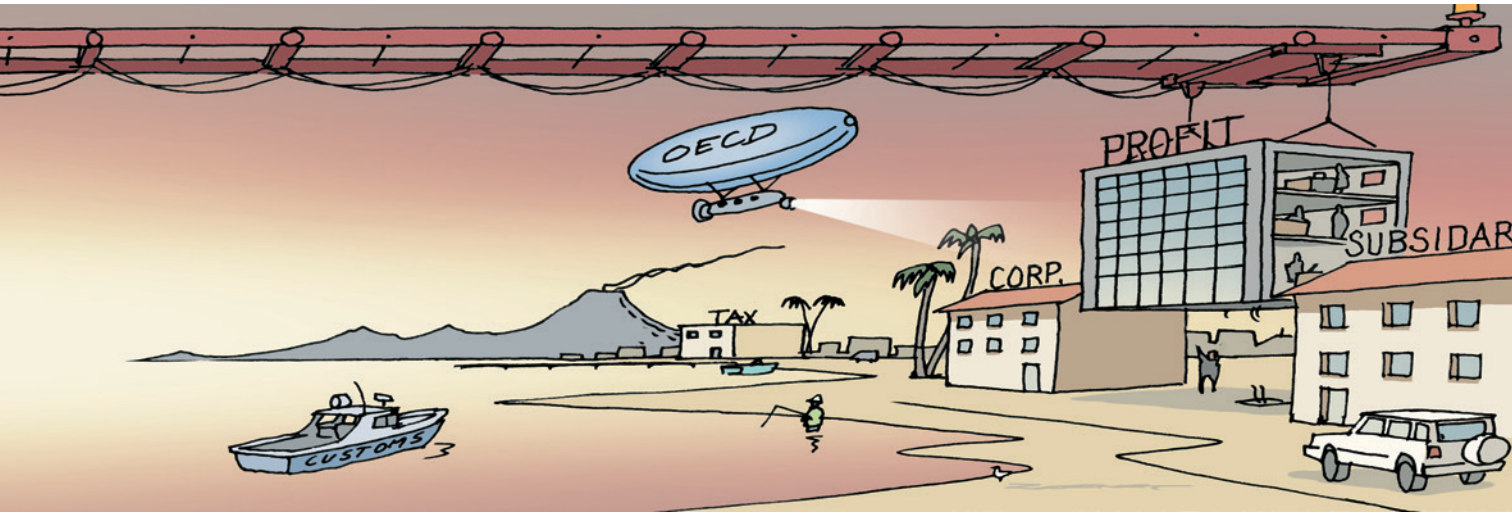
ACTION 2: Neutralise the effects of hybrid mismatch arrangements. Mismatches in the way countries' tax laws treat entities and instruments can allow companies to claim multiple deductions for the same economic expense or cause taxable income to disappear. This action will result in treaty and domestic law provisions to neutralise these schemes.

ACTION 3: Strengthen controlled foreign companies (CFC) rules. One of the sources of BEPS concerns is the possibility of creating offshore entities and routing income through them to escape taxation in the country of the shareholder. Strong CFC rules can address this issue by including the income of these offshore entities in the shareholder's income on a current basis.

> "Some companies use excessive interest deductions to erode their taxable profits

ACTION 4: Limit base erosion via interest deductions and other financial payments. Some companies use excessive interest deductions to erode their taxable profits, or use debt (which generates interest expense deductions) to finance the production of tax-exempt income. This action will result in rules to prevent BEPS through the use of interest expense and other financial payments.

ACTION 5: Counter harmful tax practices more effectively. Countries have long recognised that a "race to the bottom" would ultimately drive applicable tax rates on certain mobile sources of income to zero for all countries, whether or not this was the tax policy a country wished to pursue. This action will result in revamping the work on harmful tax practices, with a focus on the transparency of the regimes and the economic substance required to benefit from them.



Aligning taxation and substance

ACTION 6: Prevent treaty abuse. While tax treaties are designed to prevent double taxation, in some cases they are used to create double non-taxation, in particular through the use of conduit companies set up in a third country (i.e., not the country of the investor or that of the investment). This action will result in provisions that prevent the granting of treaty benefits in inappropriate circumstances.

ACTION 7: Prevent the artificial avoidance of permanent establishment (PE) status. Under the international standard, a country may not tax the business profits of a foreign company unless the company has a PE in that country. If the company is not taxed on those profits in its jurisdiction of residence, double non-taxation results. This action will result in changes to the definition of PE to prevent the artificial avoidance of PE status in relation to BEPS.

> While tax treaties are designed to prevent double taxation, in some cases they are used to create double non-taxation

ACTIONS 8, 9 and 10: Ensure that transfer pricing outcomes are in line with value creation in respect of: intangibles; risks and capital; and other high-risk transactions. Transfer pricing rules serve to allocate income earned by a multinational enterprise (MNE) among the countries in which the MNE does business. In some cases, MNEs have been able to use and/or misapply the existing rules to separate income from the economic activities that produce that income. This most often involves transfers of intangibles or other mobile assets, over-capitalisation of group companies, and contractual allocations of risk. These actions will result in rules to prevent BEPS through transfers of intangibles, through transfers of risk or excessive allocations of capital, or through transactions which would not, or would only very rarely, occur between third parties.

Ensuring transparency while improving certainty

ACTION 11: Establish methodologies to collect and analyse data on BEPS and the actions taken to address it. This action will identify tools to monitor and evaluate the effectiveness and economic impact of the actions taken to address BEPS, including its spill-over effects.

ACTION 12: Require taxpayers to disclose their aggressive tax planning arrangements. Improved disclosure measures can help tax administrations and tax policymakers to identify emerging risk areas, and also serve as a deterrent to those companies wishing to engage in aggressive planning. This action will result in mandatory disclosure rules targeting these kinds of arrangements.

ACTION 13: Re-examine transfer pricing documentation. While taxpayers are often required to produce voluminous documents regarding their transfer pricing arrangements, in many situations the information does not help tax administrators develop a "big picture" of a taxpayer's global arrangements. This action will result in rules regarding transfer pricing documentation that enhance transparency for tax administrations while taking into account compliance costs for business, and will include a requirement that MNEs provide all relevant governments with needed information on their global allocation of income, economic activity, and taxes paid on a country-by-country basis.

ACTION 14: Make dispute resolution mechanisms more effective. The actions to counter BEPS must be complemented with actions to ensure the certainty and predictability needed to promote investment in today's environment. This action will ensure such certainty by developing solutions to address obstacles that prevent countries from solving treaty-related disputes.

ACTION 15: Develop a multilateral instrument. Changes to the OECD Model Tax Convention are not directly effective without amendments to bilateral tax treaties. A multilateral instrument to amend bilateral treaties is a promising way forward and work has started on the development of such an instrument, in order to be ready for swiftly incorporating changes.

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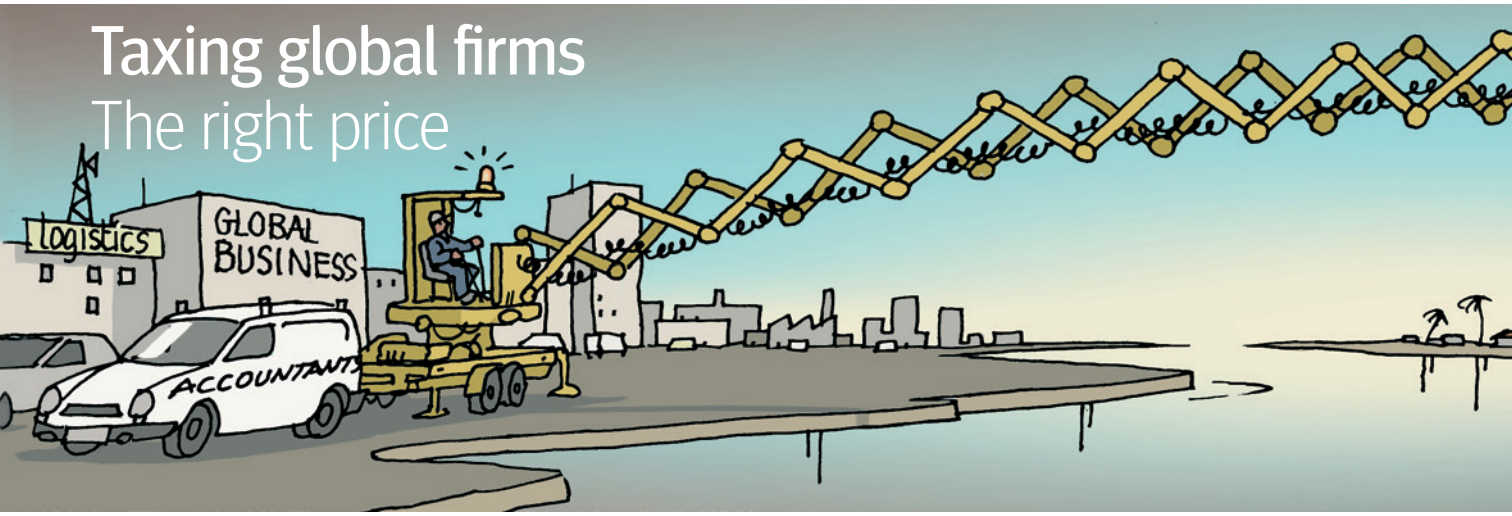
For more information on the OECD Action Plan on BEPS, contact Raffaele Russo at the OECD

Taxing global firms
The right price



How multinationals and related firms calculate their internal global transactions for tax purposes is always under scrutiny, and even more so since the start of the crisis. The widely accepted way is to compare the value of those transactions with similar real market transactions. This arm's length approach has its critics and competition is brewing. Here are the pros and cons.

Albert Einstein said the hardest thing in the world to understand is income tax. Though that may be true, spare a thought for the taxation of multinationals operating in several countries at once. Major global firms, such as Volkswagen and Apple, trade among their related constituent firms, rather as separate firms do. Volkswagen Mexico, for instance, may make a car transmission based on a patent owned by VW Germany and then sell the component to VW USA, which assembles and sells the finished vehicle in the US.

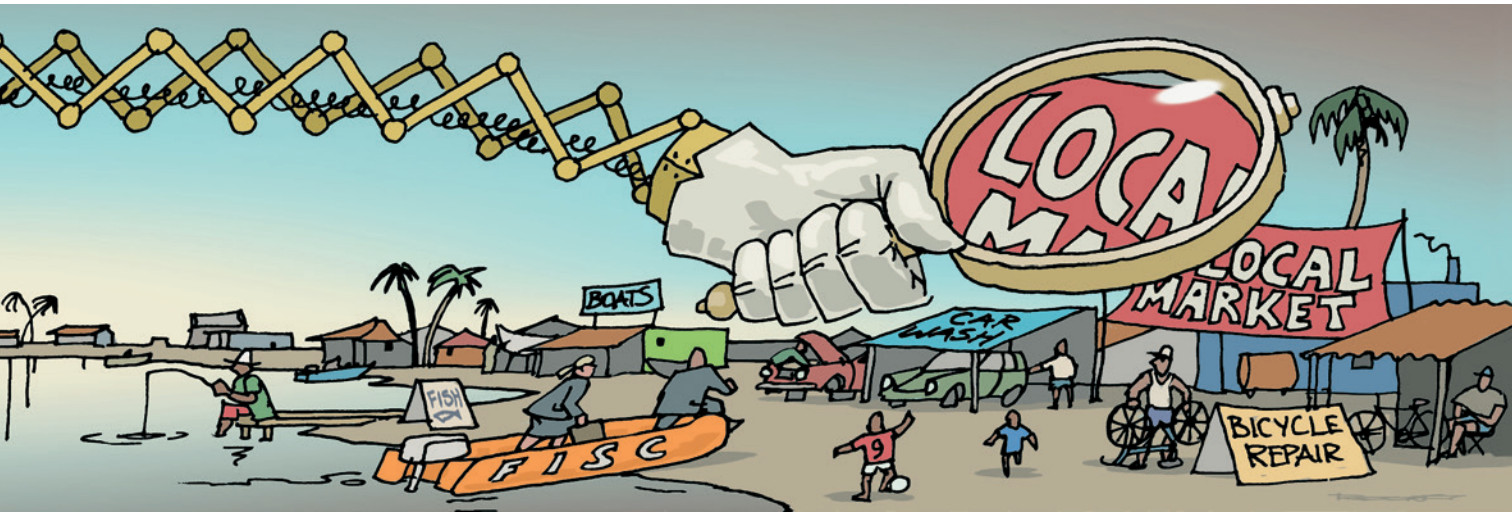
The magnitude of such cross-border transactions among related companies is huge: according to a recent UN report, it may account for more than 30% of all international transactions and appears to be growing steadily. And just as for trade between separate unrelated firms, those transactions are subject to tax. However, as the valuations assigned to their "internal" transactions are not prices set outside on the open market, they must be defined by applying corresponding prices from the marketplace. These "transfer prices" form the basis of the OECD and UN-supported model for taxing cross-border transactions among related enterprises, and few people would dispute their potential complexity.

They are controversial too, because they determine the allocation of taxable income among different jurisdictions in a world where neither governments nor enterprises wish to be out of pocket. The rules for transfer pricing are based on the arm's length principle, which means that for a cross-border transaction between related entities (in the same global firm, for instance), the parties should use the same price as two unrelated parties for a similar transaction under similar conditions in the external marketplace. The principle is elegantly simple in theory, but is more complex in practice. What if similar trades in a poor local market are priced lower than trades taking place within a major sophisticated firm? Some argue that such a situation puts corporations and their well-trained accountants at an advantage by allowing them to use transfer prices that are either too high or too low to shift income to tax-favourable locations. Authorities, particularly in developing economies, sometimes feel obliged to accept the prices the companies establish, and may forgo significant tax revenues as a result. Some believe that to avoid the income shifting that can result from mispricing transactions, the arm's length principle should be replaced by a simpler mechanism. Are they right?

"Arm's length transfer pricing is not so much legally complex as it is factually complex," says Joe Andrus, head of the OECD's Transfer Pricing Unit. The principle relies on the identification of appropriate market comparables, which can demand a substantial amount of time and data to identify. In some cases, independent comparables may simply not exist, as some transactions would not be replicated in any normal market, particularly complex transactions involving specialised know-how and other "intangibles". For example, a company might not license the patent protecting its most important product to a potential competitor, but may license that patent to an affiliate in a tax-favourable jurisdiction as part of structuring its business operations. In such situations, finding the right royalty for the licence in the absence of comparable transactions can be very challenging.

Understanding and applying the arm's length principle also absorbs administrative capacity, which can be challenging for developing countries. There may be a lack of auditors with appropriate expertise or experience, and inadequate enforcement mechanisms and inadequate–or even non-existent–transfer pricing legislation. "These can all be pretty big hurdles to get over," says Mr Andrus.

No surprise, therefore, that some critics call for replacing arm's length transfer pricing with a simpler approach that would take 100% of a multinational's income and allocate it according to a formula based on indicators of where its economic activity really took place, how much revenue was made, what the payroll is, and so on. The system of income allocation used by US states is widely cited as the successful example of



this type of approach. However, says Mr Andrus, "The US system has almost 80 formulas for 50 states and leads to double taxation. This is not a huge problem simply because the state tax rates are low." But if each national jurisdiction adopted its own formula, this would inevitably lead to problems of multiple taxation. And taxing the same corporate income more than once distorts investment decisions and the flow of income.

To avoid this, Mr Andrus says, all countries would need to adopt the same formula, which is "an unlikely scenario, given their competing economic interests." Countries would also need to adopt a consistent measure of corporate accounting income as a base for the formula. "Without consistency," he says, "double taxation would be inevitable and there would be no way to resolve disputes."

> Some argue that income shifting to low tax regimes can result from deliberately mispricing transactions

In contrast, the arm's length principle has been proven to work effectively in the great majority of cases and to be the most promising approach for minimising both double taxation and double "non-taxation". So rather than discarding it, the OECD, the UN and other organisations have focused on ways of simplifying the arm's length system for all countries and addressing the challenges faced by poorer countries, and in those specific situations where the arm's length principle is difficult to apply, finding practical solutions that can be accepted consistently by countries. One promising approach for some situations involves "safe harbour" arrangements that allow companies to declare a minimum amount of income in a country and to enter into agreements with other countries so that they are not double-taxed on those transactions. "This type of approach does not require as much legal or factual sophistication and holds real promise in specific situations where the activity in a country is a routine one," notes Mr Andrus. He points to countries such as Viet Nam and Costa Rica, whose developing textile industries manufacture clothing for big producers in industrialised countries. "All of these sewing operations are largely doing the same kinds of things, involving the performance of routine services. In this type of situation, it should be possible, based on economic data for a country, to agree to accept the cost of performing the services plus, say, a 5% or 10% markup as an appropriate price for the services, and to have that result accepted both in the country where the manufacturing takes place and in the country where the purchaser is located." In May 2013 the OECD issued new guidance on the safe harbour approach.

Training is another area that can give support, and the OECD conducts training seminars for tax administrators of developing countries at locations around the world each year. In addition, a joint OECD/UN transfer pricing manual designed for developing countries has recently been launched.

Dialogue is important, and beginning in 2012 the OECD, under the auspices of the Global Forum on Transfer Pricing, held an annual conference on transfer pricing issues—bringing together both developed and developing country tax administrators. The issues they address are very current. For example, one of the key recommendations in the OECD's base erosion and profit shifting (BEPS) action plan released in July is a more consistent mechanism for reporting to all countries, where relevant, the income that a company earns in each country and the amount of tax that it pays in each country.

Such transparency would give developing countries more information about the economic activities of multinational enterprises outside their territory, providing another tool for more effective transfer pricing benchmarks that tax officials, as well as Einstein, would understand. *Gerri Chanel*

For more on transfer pricing, contact Joe Andrus at the OECD.

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Transparency and global tax: Clearing the way

For a more effective global tax framework, more transparency between jurisdictions will be vital. An automatic exchange platform, which will strengthen other steps aimed at closing off international avenues to tax evaders, is now in the pipeline.

For most of the past 100 years tax transparency has been a muddy notion, with just a few information exchange agreements in a few bilateral treaties allowing governments to keep tabs on finances which, for the most part, eluded them. The amount of information exchanged under these agreements was low and the agreements themselves often included significant restrictions on the information that was required to be exchanged. In a number of cases they did not require exchange of bank information, as bank secrecy was seen as "set in stone" in the public consciousness of some countries. Other mechanisms, such as bearer shares, which allowed the real owners of companies to be hidden, were not adequately addressed in these arrangements.

The era of globalisation, multinational corporations and international finance quickly exposed the limitations of this bunkered regime, whereby global banks could duck behind national borders and claim secrecy, ostensibly to benefit clients, though with potentially deleterious effects on tax revenue. Tax authorities simply could not get enough information to ensure that all taxpayers paid the proper amount of tax in jurisdictions across the globe.

More transparency was needed. Without it, ordinary taxpayers and entire tax bases, not to mention sovereignty, would lose out.

The current financial and economic crisis was the wake-up call, and 2009 became a watershed for fighting tax havens and clamping down on tax avoidance when the G20 announced that the "era of bank secrecy is over". One of the key decisions taken at the summit that year was to set up the Global Forum on Transparency and Exchange of Information for Tax Purposes to strengthen the capacity for co-operation in international tax matters. As Monica Bhatia, who heads the forum, put it, effective tax co-operation ensured that countries were no longer allowed to use secrecy from tax authorities as a lure.

The OECD, already the home of the half-century-old Model Tax Convention and leader in the international clampdown against illicit tax havens since the 1990s, was the obvious location for the forum.

The forum developed a standard of transparency and exchange of information for tax purposes which was quickly accepted by the G20, OECD countries, offshore financial centres, developing countries and beyond. In 2010, the European Bank for Reconstruction and Development incorporated the standard into its investment policies, and the World Bank did the same in 2011. The standard requires three elements: reliable information must be available, the tax authority must have access to the information, and there must be a legal basis for its exchange, on request, with relevant treaty partners, which includes provisions for safeguards, strict confidentiality rules for the information exchanged, and timelines.

By April 2013, the number of jurisdictions that had committed to implement the standard and joined the Global Forum on Transparency and Exchange of Information for Tax Purposes had grown to 119, and around 1,100 new bilateral arrangements had been signed, based on the international standard. In addition, the forum had completed 113 peer reviews–that is, countries reviewing each other's practices in published form–and issued over 600 recommendations for improvement, more than 300 of which had been, or were in the process of being, acted upon.

The results show that even stones change, and now it is no longer possible for countries to claim that they cannot exchange bank information for tax purposes because of their strict bank secrecy rules. In addition, many other changes in domestic legislation have been introduced to comply with the standard, such as measures to ensure that the owners of bearer shares can be identified. Compliance with the international standard is now a constant theme for international financial centres, and the peer reviews and monitoring continue. The peer reviews also show that the volume of information being exchanged for tax purposes is now growing rapidly, and the time taken to provide information is falling just as quickly, helping countries to enforce their laws much more effectively.

The next step for the forum will be to rate how well jurisdictions are complying with

the standard, and to identify jurisdictions that are not in step with the international consensus. At the end of 2013, jurisdictions will start to receive ratings for the 10 individual elements of the international standard, and an overall rating: "compliant", "largely compliant", "partially compliant" or "non-compliant".

Tax authorities, meanwhile, continue to explore more ways to co-operate. In 2011, after the G20 indicated its support for automatic exchange of information for tax purposes, it tapped the OECD to provide analysis of the issues involved. In response, the OECD presented a report on automatic exchange to the G20 leaders at their June 2012 summit in Los Cabos, Mexico, describing what automatic exchange is, how it works, where it stands and what challenges remain.

In April 2013, the G20 finance ministers endorsed automatic exchange of information for tax purposes as the new expected standard, and the G8 followed suit in June by committing to work with the OECD to "develop rapidly a multilateral model that will make it easier for governments to find and punish tax evaders". The G8 has also recommended that multinationals should provide tax authorities with data on income and taxes by country, and that tax authorities should have access to information on the ownership of companies.

An OECD report, "A Step Change in Tax Transparency", which was presented at the June 2013 G8 Summit in Lough Erne, Northern Ireland, provides four concrete steps needed to put in place a global, secure and cost-effective model of automatic exchange of information: enacting broad framework legislation, selecting a legal basis for the exchange, determining the information to be exchanged and related procedures, and developing common or compatible IT standards.

Two main considerations stand out. First, as tax evasion is a global issue, a model for automatic exchange of information needs to be developed and used worldwide to avoid merely relocating the problem elsewhere. Second, the process needs to be standardised to minimise costs for businesses and governments and to improve effectiveness.

> "Even stones change, and now it is no longer possible for countries to claim that they cannot exchange bank information for tax purposes

The model is still under development but is advancing quickly, steered by the OECD's Working Party 10. The aim is to complete the development of a common model for reporting and automatic exchange of certain account information held by financial institutions, including due diligence rules, reporting formats and secure transmission methods.

In July 2013 the G20 finance ministers and central bank governors called upon the forum to establish a mechanism to monitor and review the implementation of the global standard on automatic exchange of information. Similar directions are expected from the upcoming meeting of the G20 leaders in September 2013.

Tax transparency is also relevant for the OECD's widely publicised Base Erosion and Profit Shifting (BEPS) Plan, which was issued in July 2013. The 15-point action plan aims to reduce the ability of multinationals to artificially move profits away from jurisdictions where business activity actually takes place and declare them in low-tax jurisdictions as a way of reducing taxes, or paying none at all. Actions to counter profit shifting go hand-in-hand with measures to improve transfer pricing methods and make for clearer disclosure of aggressive tax positions. None of these can work without enhancing transparency and information exchange for tax purposes.

This may be another significant step in the ongoing process of sharing information, and hopefully it is one which even the end of the crisis will not quell. "Over the past few years we have been seeing a dramatic rise in tax transparency," says Monica Bhatia. "This is irreversible and the future will bring in even more effective information sharing. The message to tax evaders is clear: the avenues for hiding money are shrinking very rapidly."

Gerri Chanel

For more information, contact Monica Bhatia and Dónal Godfrey at the OECD.

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ICAEW

The greatest challenge for the G20: Restoring trust in business

"International tax reform demands strong national and G20 leadership, but the prize of a fair and efficient tax system is well worth the effort."

A view from Michael Izza, Chief Executive, ICAEW. ICAEW is a global accountancy body representing 140,000 Chartered Accountants across the world.

In my view, the greatest challenge for the G20 this year will be working to restore trust in business with new measures on tax, trade and transparency.

Trust is an essential part of a working economy, and it is needed to help create jobs and build fair societies.

But tax avoidance, excessive pay at the top, and allegations of corruption have all helped create a toxic environment for business over the past few years.

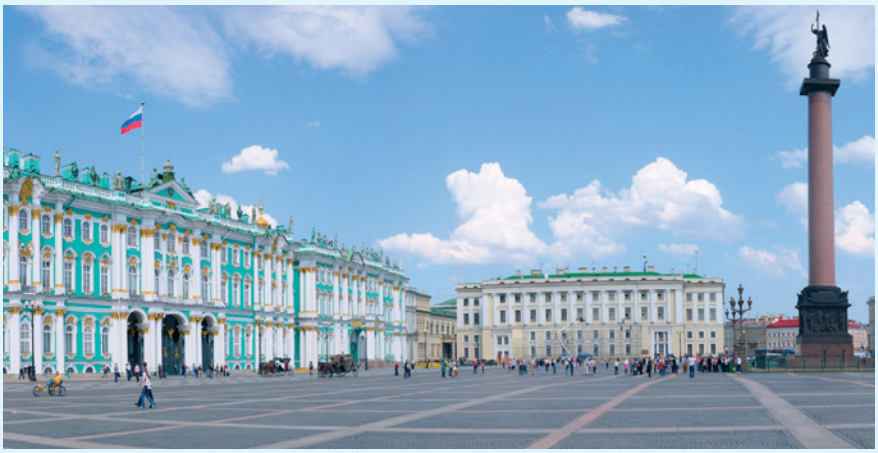
RECOMMENDATIONS

1. **Support the emerging OECD recommendations on tax**
2. **Use a single set of high quality financial reporting standards**
3. **Encourage businesses to behave in a socially acceptable way**

So how could the G20 go about improving trust and business behaviour? Here are three ideas:

1 Support the emerging OECD recommendations on tax

Since the financial crisis, government and public expectations on tax have shifted dramatically. To tackle confusion and unfairness in the taxation of multinational businesses, governments must update and simplify tax rules. The OECD has provided a road map for G20 nations to shape tax rules in a way that reflects the realities of modern technology and cross border trade.



Implementing this will demand strong national and international leadership, but the prize of a fair and efficient international tax system is well worth the effort.

Because of the key role they play in making tax systems work, Chartered Accountants are part of the solution here. Our profession is ready to work with G20 nations and the OECD to ensure the success of international tax reforms.

2 Use a single set of high quality financial reporting standards

Growing global growth and trade is crucial to tackling poverty and boosting living standards. As well as progressing free trade agreements, G20 governments should help businesses speak a common global financial language, making them more transparent and boosting trade and investment. This means a strong commitment to a single set of high quality financial reporting standards, known as IFRS. Governments could also benefit from committing to similar standards of reporting in public sector finances.

3 Encourage businesses to behave in a socially acceptable way

Restoring trust will require greater transparency and cultural change in the way that business works. Business needs more transparent finances and better risk management. The focus of business cannot simply be about profits for shareholders. Companies must consider their responsibilities to consumers, employees, investors and wider society. People expect businesses to have a purpose and to act in socially responsible ways, as well as within the law.

G20 leaders have a right to expect responsible behaviour from business leaders. They also have an obligation to create an environment in which responsible businesses succeed in the future. By working together, we can restore trust in business and build a fairer society.

Your Better Life Index

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The OECD Better Life Index enables you to rate countries according to the importance you give to the 11 topics. You can compare your well-being priorities with those of other users by country, age and gender, and share your results.

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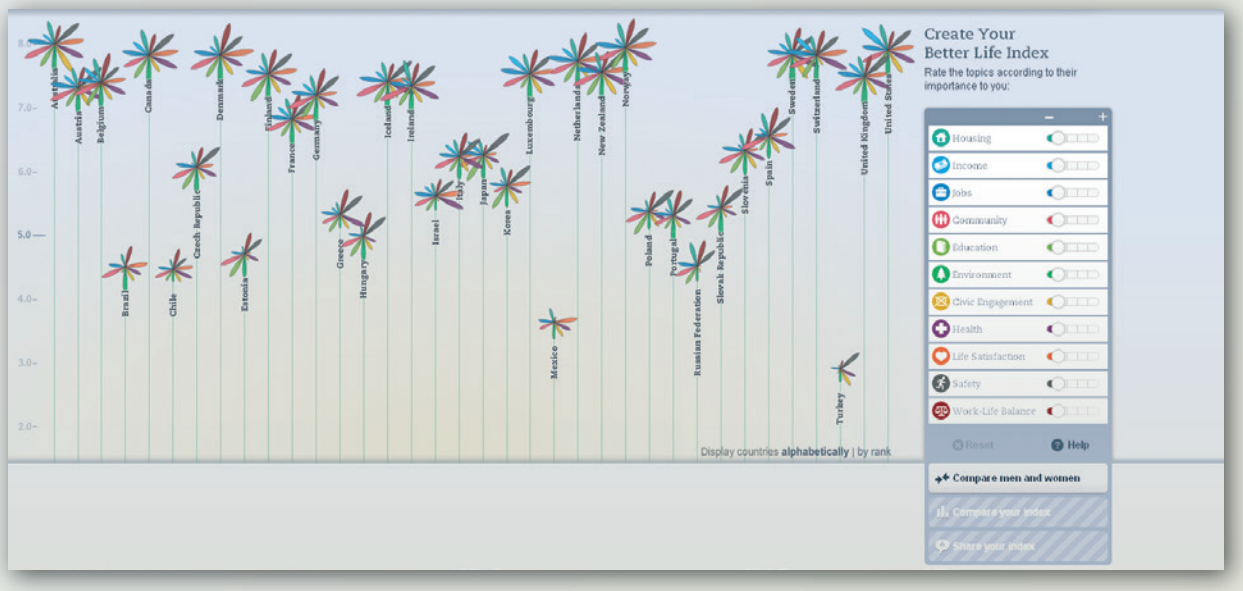

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Ireland's EU presidency
Towards stability, jobs and growth

Michael Noonan, Minister of Finance, Ireland

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Ireland held the presidency of the European Union during the first half of 2013, and good progress was made in key areas, such as the banking union and economic governance, but much remains to be done to restore confidence in the EU, particularly for its citizens.

This was my third EU presidency as a minister. I first served in the role in 1984. Much has changed since then with our Union growing from 10 to now 28 member states–and dramatic changes in terms of how Europe today does its business.

What hasn't changed is that it is still a tremendous privilege to play one's part in steering the European agenda to the benefit of its citizens. For those who question the rotating six-month presidency of the EU, Ireland's successful presidency shows that small countries can drive a positive agenda at the highest international level, not just in Brussels but at G20, OECD and IMF/World Bank meetings too. We did so by focusing on the high-level objectives that all countries could support and then delivered through the diligent and relentless work of Irish ministers and officials on the details of the agreements.

The Irish EU presidency came at a critical time in Europe recovery, and we saw our presidency as an opportunity to advance measures that supported stability, jobs and growth. We made this the central theme of our presidency, and I am pleased to report that we made real progress on supporting long-term economic growth and job creation–two objectives that impact on the everyday lives of EU citizens.

I presided over the Ecofin Council of Ministers, which is at the forefront of delivering on these objectives. Our aim is to move beyond the crisis that the EU, and in particular the euro area, has been battling in recent years.

Banking union and financial services

The priority issue that economy and finance ministers face has been the creation of a banking union. The need for such a union stretches back to before the crisis emerged. Since the introduction of the single market and the euro, there has been significant integration across Europe of financial markets, but with only partial integration of regulation and supervision.

The advancement of the banking union during our presidency was made easier by a broad agreement by the heads of state and government in 2012 that a functioning banking union requires four key pillars: banking supervision; prudential regulation of banks, covering bank capital, leverage, liquidity and risk management; bank resolution and recovery; and deposit protection.

Under these four pillars, the Irish presidency achieved agreement on the Single Supervisory Mechanism and the amendment to the European Banking Authority regulation. In addition, we achieved agreement on the Capital Requirements Directive (CRD IV), which is vital for ensuring the adoption of the Basel III requirements for strengthening the stability of financial institutions across the EU. As the final act of the Irish presidency we achieved political agreement on the Banking Resolution and Recovery Directive (BRRD) in June.

These essential agreements represent a significant body of the work required for a banking union. Clearly there is more to be done and we look forward to the discussions on the BRRD with the European Parliament before the end of 2013. I also look forward to the final element of banking union–deposit protection–coming to a satisfactory agreement in the near term.

The important lesson for policymakers inside and outside the EU is that progress on complex policy changes is possible when all parties agree on the objectives and can identify the economic benefits for citizens. The Irish presidency kept these at the heart of the discussions on the banking union.

Another important lesson is to introduce measures that will have real benefits in the short term. For example, it was

> As policymakers, we must ensure that we do not lose the popular support of European citizens

clear from our discussions on the banking union that we must become more forward-thinking in the provision of finance to the different sectors of the economy. This is especially due to the limited public financial resources and the constraints on bank lending as a result of post-crisis deleveraging.

It is now essential that we explore how the financial system–markets, institutions and financial instruments–can be used to channel savings towards the financing of infrastructure projects and credit to enterprise. I was very pleased that the Irish Informal Ecofin led to the establishment of a high-level expert group on long-term finance and small and medium enterprises. The recent green paper on long-term financing of the European economy allows Europe to look

at best practices for non-bank credit in other OECD economies.

Economic governance

Much has been done to bring stability to the euro in terms of economic coordination and reform. The EU has seen the introduction of fiscal rules with headline deficit and debt limits, a stronger focus on debt, a fiscal pact for 25 member states and greater flexibility in a crisis.

Our presidency achieved a successful outcome in terms of the economic governance of the EU and enabled the European semester process to be concluded at the European Council. This means greater monitoring of economic policies through discussions on member states' budgetary and economic plans at specific times during the year. The presidency also achieved agreement on the "two pack" of economic governance measures. This allows for economic surveillance to be stepped up for euro member states with high deficits or debts, and those facing difficulties with regard to their financial stability.

EU budget

In relation to both the annual EU budget and also the next seven-year framework–the Multiannual Financial Framework (MFF)–the Ecofin Council played an important role in ensuring progress. The EU budget is important for all member states, including Ireland, with supports for agriculture, science and technology as well as other centrally funded areas. The MFF sets the basis for EU budgets up to 2020 and is very important for economic development, growth and employment.

Taxation policy

On taxation matters our presidency was active in promoting anti-fraud and anti-evasion measures in the Ecofin Council with conclusions adopted on tackling tax fraud and tax evasion. There was also political agreement on the VAT Quick Reaction Mechanism and VAT Reverse Charge Mechanism. These are important measures to prevent carousel fraud and other forms of indirect tax fraud, and to prevent the loss of necessary revenues for public services across Europe.

I would like to take this opportunity to welcome the publication of the OECD's Action Plan on Base Erosion and Profit Shifting and state that Ireland is actively participating in groups to bring forward its work. The OECD has done valuable work in identifying areas on which all members can agree to work together.

EU member states and other countries know that more needs to be done. We have learned from the crisis that the reform process both in the EU and globally is a continual one, and that any state or institution cannot rest on past achievements. I am confident that the Lithuanian presidency will continue this necessary work of restoring the confidence of other countries and international markets in the EU.

In making these changes, all of us, as policymakers, must ensure that we do not lose the popular support of European citizens. The EU project is far from complete, but I believe that it will continue to strengthen and develop. Job creation, greater job security, increased standards of living, greater prosperity for all: this is what citizens across the EU expect and deserve. It is essential that policymakers effectively communicate to citizens how the many changes that are being introduced will bring about improvements in their lives, now and into the future.

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The banking crisis: Lessons from Cyprus*

Adrian Blundell-Wignall, Special Advisor to the OECD Secretary-General on Financial Markets

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The Cyprus crisis is the result of policy mistakes and a failure of collective responsibility, as well as an illustration of what bad policy can do and could do if it's not corrected. It's now too late to take the easier steps that could have avoided the problems we're facing today, but there are alternatives to the myopic, badly conceived plan proposed by the Troika (the committee led by the European Commission with the European Central Bank and the International Monetary Fund that negotiates loans to the states worst affected by the sovereign debt crisis).

While all deposits are supposed to be guaranteed to €100,000, those with above that amount were to be taxed 9.9%, and those with less 6.75%; enough to raise about €7 billion, to make up the €17 billion estimated to be needed to rescue Cyprus' banks (since a limit of €10 billion for Troika bailout loans was imposed). The deposit plan was (naturally) rejected by Cyprus' parliament.

The "above-€100,000" depositors are in the main Russian depositors; the bulwark of Cyprus's role as an offshore centre.

Large withdrawals of electronic funds have been suspended. Electronic transfer of funds from Cyprus has been stopped. Banks are closed, now until next week.

Bank collapses would result in some €68 billion deposit insurance liabilities to be paid (at least a third outside the euro area), an amount much larger than Cyprus's GDP (just under €18 billion)–an unthinkable option.

While reports suggested there was a Troika threat to cut off ECB liquidity support (hence collapsing the banks), this was not made by the ECB, which has responsibility for such decisions and continues to support the banks for now.

A key policy mistake in Cyprus was that action was not taken sooner. Hybrid and unsecured bonds should be the first in line (after equity) in burden-sharing during bank failure resolution. Bondholders were involved in burden-sharing in other European countries and implicit bank debt guarantees declined. This caused the amount of outstanding unsecured bonds of Cypriot banks to fall noticeably during 2012 (there is now only €1.2 billion of junior bond holders left!) but the Troika failed to take action to deal with the banks. Consequently, the bulk of liabilities now consists of deposits. Early action would have reduced the cost.

> It is only natural that the Cyprus approach be taken as a pointer for what could be done elsewhere: confiscation of deposits

There is a collective responsibility here. Starting from the failure to act early, one can add more to the list: the losses of Cyprus' banks derived mainly from holdings of Greek government bonds, which successive European politicians promised would never be allowed to default; the "one size fits all" monetary policy; the failure to implement and monitor the Maastricht fiscal pact; and the permission given to enter the euro in the first place.

The Troika's plan amounts to a confiscation of deposits. The most recent example of this kind of policy was Zimbabwe in 2008–confiscating foreign currency bank accounts (puzzlingly the IMF was critical of this then). And there have been examples in extreme crisis situations in Europe and Latin America before that, which also made things worse and left a deep distrust of banking for generations.

The plan has surprised even the worst critics of the euro project. Not contributing to bank runs is the single most important lesson of hundreds of years of financial policy making in crises, lessons that appear to have been lost on the Troika.

The full implication of this latest policy announcement from Europe is hard to assess. But policymakers need to rethink this policy quickly.[…]

Governments went through a lot of trouble to establish new deposit insurance ceilings in Europe. The new harmonised EU (and EFTA)-wide deposit insurance ceilings have to be seen against the background of re-instilling depositor confidence, while also trying to limit moral hazard risks. Major efforts have been undertaken by deposit insurers to raise awareness of these new ceilings. Any policy measure that undermines the credibility of this ceiling runs the risk of triggering a depositor runs in other countries that have banking sectors under stress and weak sovereigns.

The Basel process is trying to discourage reliance on short-term wholesale funding while favouring retail deposits, with a view to improving the outlook for financial stability. Deposits are currently very much

sought after. For example, the relative stability of the Italian banking sector in part reflects the ability of Italian banks to increase their domestic retail deposit base. Haircutting small depositors will undermine these efforts.

Restrictions on capital flows, should they prove necessary, perpetuate external imbalances, undermine trust, and may prompt and encourage similar measures by other countries.

There are serious problems on bank balance sheets in certain larger EU economies, which may in the end require bank resolutions. It is only natural that the Cyprus approach be taken as a pointer for what could be done elsewhere: confiscation of deposits. This is very important, because one of the stumbling blocks for the European banking union project is the very nature of deposit insurance and who will pay for it. The precedent being set here will make it more difficult to finalise the banking union project.

Trust in the financial system is built around the most basic ideas of caveat emptor for sophisticated participants and protections for unsophisticated investors. European politicians have strongly supported the OECD push for better financial literacy and consumer protection–yet the Cyprus plan says that Europe is prepared to hurt the small unsophisticated depositor in banks that they believed were safe.

Global systemically important banks have not been restructured to separate material derivatives and securities businesses, where *caveat emptor* should apply, from traditional businesses of deposit taking and lending where protections are important. More volatility can put big banks under pressure via margin and collateral calls, contaminating traditional banking, if the crisis were to escalate from here.[…]

*This is an extract from an article that first appeared on the OECD Insights blog, 21 March 2013, under the title, "Cyprus: Further compressing the coiled spring". Read the full text at www.oecdinsights.org. The views expressed in the article are those of the author only, and do not necessarily represent those of the OECD or its member countries. For updates, contact Adrian Blundell-Wignall at the OECD.

Profiting from trade in value added

©Christian Charisius/Reuters

The world economy has become more complex, with global value chains and myriad interconnections among producers across continents. This has an impact on trade and investment policy, as well as on development, and exposes the shortcomings of the usual way of measuring trade.

David Hume, the 18th century Scottish philosopher and historian, observed that in Ancient Greece, it was a crime to export figs on the grounds that figs were too exquisite a fruit for barbarian palates. "It is easy to observe," Hume wrote, "that all calculations concerning the balance of trade are founded on very uncertain facts and suppositions."

Such a policy would probably not gain much traction today, but wrongheaded notions do persist about trade. Take the iPhone. Most people probably take it for granted that Apple's creation is manufactured in China, and that China earns a considerable profit from exporting it. In 2010, an iPhone cost just over US$187 at the factory gate. Within that amount, however, Korea contributed $80.05 worth of components, Chinese Taipei $20.75, the United States $22.88 and Germany $16.08. China was among a host of contributors at the bottom of the list; by simply putting all the parts and components together, Chinese workers contributed just US$6.50 to each iPhone.

So who really produces the iPhone? A study by the Asian Development Bank estimated that the iPhone deepened the US trade deficit with China by $1.9 billion–that is, until the real "value-added" is measured, in which case the deficit evaporated to $73.5 million.

This statistical bias of attributing the origin of product to its last port of call not only distorts economic reality, but gives a credible arm to trade protectionists.

Current trade statistics reveal little about the value added to a product at each stage of the process. There is also the tendency to think of value-added as pertaining only to components: the memory function, touch screen and applications processor in an iPhone, rather than the logistics, R&D, marketing and branding.

In fact, all are part of a global value chain (GVC) with unsuspected links to other chains. OECD data show that the added value of these "intermediate inputs" accounts for more than 50% of the value trade in goods and 70% in services. If such is the case, it might reasonably be asked whether the old way of measuring trade is of much use.

Assessing the true costs of production means tracking each of these inputs to the source, which for the moment is not the case. If it were, the world would look quite different. The problem starts with an arithmetical blunder. Nominal duties on gross exports reveal little about the harm caused by tariffs and other protectionist measures which boost production costs. Spared the agony of jumping one high barrier, exporters grow weary at having to jump a lot of little ones. The tariff a country pays to export its cars to another may be low, but if the manufacturer depends heavily on foreign intermediate inputs, any tariff on those intermediate inputs carries over into the production cost. In short, keeping intermediate tariffs low is as important as keeping them low on final goods.

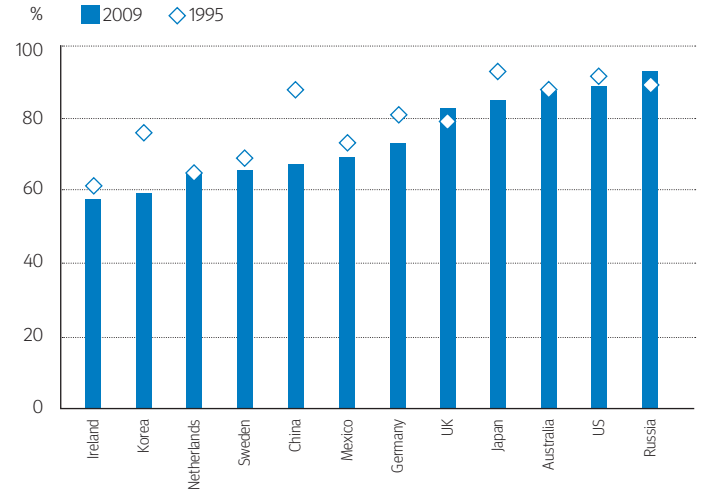
Consider the production chain. A country (having paid its tariff) exports a computer chip to a second country for installation in a circuit board. The second country, having installed the chip (and paid its tariff), ships the circuit board off to a third country, where the chip (now counted as a "circuit board") is assembled as part of a car computer. Next, the chip (now in its final metamorphosis as a "car") is exported to a fourth country where it is marketed and sold. Instead of being counted once, the chip is counted three times, each time as part of a larger component.

> TiVA lays the groundwork for multilateral trade negotiations

The cumulative effect obscures the real cost of a product and distorts policy decisions. Protectionist measures against intermediate inputs, for instance, become self-defeating in this light since higher costs on these imports would obviously hurt a country's exports too. Government efforts to lighten the burden on producers

Made in the world

Domestic value added content of gross exports fell in most countries from 1995 to 2009, %



Source: OECD TiVA indicators

through currency interventions bring no relief. Any competitive advantage gained through a cheaper currency is lost because intermediate inputs purchased from abroad end up being more expensive.

To help clear up this confusion and build a sharper picture of trade based on the complexity of measuring the value-added of inputs, the OECD and WTO released the TiVA (Trade in Value-added) database in January 2013. The database, which was updated in May, covers 18 industries in 57 countries. The OECD has also released a set of trade facilitation indicators for 133 countries. These reveal the unexpected costs engendered by tariffs and protectionist measures and lay the groundwork for advancing multilateral trade negotiations.

It is a valuable database, because in a world of GVCs, policymakers are apt to lose sight of the fact that success in global markets depends as much on a country's capacity to import high-quality inputs as to export them. It helps no one if some countries pay tariffs on their value-added exports five times higher than the nominal tariff rate. Manufacturers of components are not the only losers. Tariffs on agricultural goods, for example, are on average three times higher than those on manufactured products. Along with lowering or eliminating tariffs, policymakers must also address debilitating non-tariff measures (NTMs), and take a long, hard look at services.

The service sector is the fastest growing sector in the world due mostly to the boom in information technology. Aside from the components in a PC or smartphone, much of the trade in this sector is intangible. Software development, patent acquisition and data transfer do not require the container ship but liberalised telecommunications and clear regulations concerning intellectual property rights. Even the idea of "logistics" is evolving. In Sweden, digital distribution of music, video games, etc., is outstripping traditional distribution through retailers. Firms, especially small ones, say that digital distribution makes it easier to reach larger markets, refine marketing strategies and attract financing through novel methods like crowdsourcing and crowdfunding–common in the video games industry. But one of the most striking aspects of GVCs in services is that the highest value-added occurs at the extreme ends of the chain: in the early innovation and later branding and marketing, for instance.

Most countries will rightly want to move up the value chain. To help them, policies to nurture talent and develop new skills will therefore be essential. Talent and skill are themselves value-adding intermediate inputs. Visas and overly tight work permits, as well as restrictions on intellectual property rights (IPR) and patent acquisition can in contrast stifle innovation. Government must also help ensure that workers in outmoded sectors can be retrained for new jobs.

Changing policy is easier than overcoming biases, but if the map were redrawn to show countries where they truly stood in terms of value-added trade, it could ease geopolitical tensions over trade surpluses and deficits. And given the interconnected nature of our economies, it would not only heighten competition, but strengthen trust and co-operation as well, surely the most valuable assets in a global economy.

Lyndon Thompson

For more detail on trade in value-added, contact Sébastien Miroudot at the OECD

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eBay and the rise of the micro-multinationals

Pierre-Louis Vézina, Research Fellow, University of Oxford, and Hanne Melin, Policy Strategy Counsel EMEA eBay Inc

The fashion is spreading

Small international businesses are flourishing on the back of new technology, and becoming more multinational than much larger international corporations.

Wandering through the airports of the world, weary travellers may well have noticed the regular HSBC ads forecasting the business trends of our changing world. One of the advertising series, echoed in a well-aired TV commercial, depicts that North American staple: the kids' lemonade stand. This stand, however, is unlike the normal run-of-the-mill one: it seems the young entrepreneur behind it accepts three major currencies, not just the local one. As the tagline argues, "In the future, even the smallest business will be multinational".

While HSBC is clearly trying to show itself as a forward-looking, visionary bank, the reality is that, in one instance at least, such a future is already upon us. That is because new communication and web-enabled technologies are already bringing the world to the virtual lemonade stands of the smallest entrepreneurs.

These small and micro-enterprises are able to complement their traditionally locally-focused retail skills with the latest technologies, allowing them to access global markets with much lower entry barriers. Not only are they able to accept several currencies, but they can effectively pitch their lemonade stand anywhere a willing consumer is located and become a trusted exporter.

Traditionally, exporting has been a complex and costly task. The libraries of business schools are well stocked with thick manuals and studies of foreign market entry, franchising, exporting and trade policies. The extra costs that exporting involves, from adaptive marketing to shipping insurance, have tended to make it an exclusive activity, reserved to a small, select clique of highly productive large corporations.

In a recent survey on firm heterogeneity and trade, published in the *Annual Review of Economics* (see references), the authors noted that "one of the most striking features of the micro data is that firm participation in international trade is exceedingly rare".

Indeed, the authors showed that a remarkably small proportion of US firms engage in international trade. Out of 5.5 million firms operating in the US in 2000, only 4% exported.

Even when focusing solely on firms active in manufacturing, mining and agriculture, where markets tend to be more international, the authors found that only 15% were exporters. They also showed that exporters were generally larger, more productive, paid higher salaries and employed higher-skilled workers than their non-exporting counterparts.

What's more, the authors showed that out of those US firms that exported, 64% exported to a single country. Only 14% of exporting firms sold to five or more countries, and the average number of destination markets was as low as 3.5.

However, online platforms are lowering trade barriers. It has become almost a mantra of modern policy dialogue to say that the Internet is changing everything. In some cases, the rhetoric of change is just that: rhetoric. However, in the field of online trade the change is real and quantifiable. Recent research by Lendle et al. (2013) looked at a dataset covering US business sellers on eBay in 2010 to get a glimpse of what a more connected and frictionless world may entail for small businesses. Technologies such as those available to firms via the eBay platform are likely to be the sort of tools needed to help homemade lemonade brewers reach a global customer base. This is because online platforms enable individuals and firms to connect across cultural and national borders. These connections are made over an online platform with support services such as marketing, dispute resolution mechanisms, review processes, payment and delivery solutions.

> A remarkable 85% of US [firms on] eBay sellers are engaged in cross-border sales

In short, the online marketplace allows shoppers to get the products they

want from the merchant they trust, no matter where they are in the world. Merchants wishing to export do not need to spend time and money to acquire deep knowledge of their destination markets and establish business contacts and distribution networks. Instead, they can use online platforms to gain international visibility for their inventory and technology tools to build trust with remote customers.

The matching of buyers and sellers is thus highly simplified. What's more, seller rating mechanisms and the community spirit that online platforms generate may help to deter opportunistic behaviour. International transactions have always tended to be risky, with diverse governance systems and sometimes poor contract enforcement.

> Out of 5.5 million firms operating in the US in 2000, only 4% exported

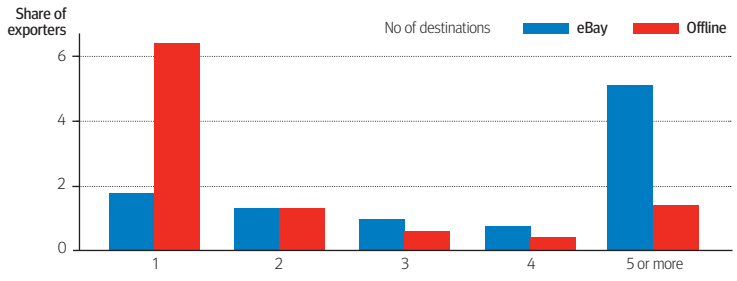
However, technology allied to information transparency helps to reduce those risks. So the question remains: are merchants using eBay's technology as a platform to access the world?

The answer is a resounding yes! The research by Lendle et al. found that a remarkably high 85% of business sellers on eBay were engaged in cross-border sales in 2010. This is much higher than the offline number which varies between 5% and 15%. Moreover, size matters less. In fact, irrespective of size, US firms on the eBay Marketplace are almost equally likely to export.

eBay exporters are also much more multinational than their offline counterparts. Lendle et al. found that US business sellers on eBay exported to on average 9.3 different countries and more than 50% export to more than five countries–a much higher proportion than offline (see graph). This is not just a US phenomenon, with the situation mirrored by eBay sellers in the UK, France and Germany.

Little trade giants

Number of export destinations for online firms and traditional trading offline, 2010



Source: Lendle, A, et al. (2013), "eBay's anatomy"

The research findings by Lendle et al. also suggest that exporter-destination relationships established using the eBay platform are more likely to survive over the years than those concluded offline. In a study of Spanish exporters by Esteve-Pérez et al. (see references), the likelihood that exporter-destination relationships would perish during a four-year period was a remarkable 90%. The equivalent loss rate for eBay sellers is about 65%.

The future of globalised micro-multinationals is already partly upon us. Technology dramatically reduces information friction and can help create trusted cross-border relationships with customers. This gives all businesses, no matter how small, a helping hand in crossing borders.

Access to the enormously larger customer pools found in world markets compared to local ones means firms have more chances of succeeding. However, the attentive reader will have noted that we say that the future of micro-multinationals is "almost" upon us. This is because global trade is not entirely frictionless…yet.

Small businesses are held back by trade rules, processes and administration systems created for a world where large corporations alone engaged in international trade. Policymakers already know that it is the small and medium-sized enterprises that are providing much of the growth impetus in the current sluggish global economy. They also need to recognise that these medium, small, and indeed micro-enterprises are increasingly engaging in cross-border trade. They need to seize the opportunities this growth potential offers for both small businesses and consumers, and focus on how to adapt trade policies, customs procedures, and shipping processes to complement web-based technologies and facilitate online trade for businesses of all shapes and sizes.

If eBay is any good as a crystal ball, small web-enabled businesses will grow truly international operations and reach consumers in the most remote markets. So let's get the right policies in place today.

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China's space wave

Claire Jolly, OECD Science, Technology and Industry Directorate

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As China's economic importance on the world's stage is growing, so is its space programme. Ten years after becoming the third country in the world to launch human beings into orbit, China successively undertook its fifth manned space mission in June, its longest yet. Three "taikonauts" (Chinese astronauts) spent two weeks in orbit in the Tiangong 1 space module.

"Tiangong" means "heavenly palace". However, investing in a space programme is no luxury—it's serious business. Investment often enhances scientific, technological, industrial and security capabilities, and consequently brings non-negligible economic returns. More than 50 countries now have satellites in orbit, with clear, down-to-earth missions.

China's reach for the stars started in 1970 with the launch of its first satellite. Following an intensive research and development programme in the 1990s, China has now become a full-blown space "power", involved in every type of space-related activity, including satellite and launcher manufacturing; spaceport; science and applications programmes; and human spaceflight.

In 2012, for the second year in a row, China launched the second highest number of space rockets, after the Russian Federation, in first place, with the US in third place and Europe in fourth.

China is now in the process of developing a space station which will be operational in 2016-22. At 30 tonnes, it will have one-sixth of the mass of its orbital neighbour, the international space station (ISS). Incidentally, the station is the third brightest object in space (after the sun and the moon), and can be seen from your garden as a bright object in the night sky—a NASA website even helps you locate the ISS passing above your area (http://spotthestation.nasa.gov/). The ISS is a scientific and engineering outpost run by the US, the Russian Federation, Europe, Japan and Canada, and is celebrating its 15th anniversary this year.

So now China is steadily catching up with other countries, with a booming space sector. With more than 40 Chinese companies involved in spacecraft manufacturing, there are around 50,000 people directly employed in the space sector, out of more than 500,000 people employed in the larger Chinese aerospace sector. Many public research institutes, often defence-related, and several universities, including Tsinghua University, contribute to the Chinese space programme, so the overall Chinese workforce involved in the space programme is probably much larger. In terms of turnover, the companies surveyed by the Chinese National Bureau of Statistics show revenues of more than US$10 billion in 2009, a value consistent with the intensiveness of the Chinese space programme.

China is not only reaching for the stars, but positioning its industry on the ground to benefit from the ever-increasing globalisation of the aerospace sector.

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Visit the OECD Space Forum website: www.oecd.org/sti/futures/oecdspaceforum.htm

Business brief

"Our University's strength is its excellent research laboratories"

An interview with **Frédérique Vidal**, President of the University of Nice Sophia Antipolis (UNS)

Could you describe your establishment?
The University of Nice Sophia Antipolis (UNS), founded in 1965, is a multi-disciplinary university with a Health sector composed of 13 departments and institutes and 47 research laboratories. We offer a broad and balanced range of training and research activities in the three main scientific fields: science and technology; the human and social sciences including the economic and legal sciences; and life and health sciences. The university currently has 26,000 students, around 20% of whom are foreign, and many guest professors. With nearly 500 agreements with foreign institutions our University has a resolutely international outlook. We have been working for several years on introducing true dual degrees with foreign universities. Finally, we as a university are aware of the major socio-economic role of higher education and research, which means that we listen to the needs of the Provence Alpes Côte d'Azur (PACA) region's economic sectors, both in terms of Research and Development and the suitability of our training programmes. We are proactive in anchoring our university within the region and extending its influence internationally.

The university also has several sites, right?
This is a major advantage for its positioning in the region. The Sophia Tech campus (information and communication sciences and technologies), located within the Sophia Antipolis technology park, the oldest and largest in France with more than 1,400 companies based there, has increased the university's visibility on the Sophia site. This is the home of our engineering school (Polytech'Nice-Sophia), several Master's and DUT (technological university diploma) training programmes, and research laboratories in partnership with major research organisations (CNRS, INRIA, INRA), all close to Mines Paris Tech and Eurecom, with which we constantly interact.

The Nice campuses are anchored in the town with emblematic locations, but also a wish to remain close to our partners. For example, the Pasteur campus houses research centres in the life and health sciences field, close to the Nice university hospital complex, and the Antoine Lacassagne cancer research centre. The planned development of an Eco-Campus in the Plaine du Var also meets this requirement to forge close links between training, research and companies in the environmental and sustainable development field.

Our excellent geographical location is clearly an additional asset. The region enjoys a lot of sunshine throughout most of the year and a globally recognised quality of life, which are two factors that make it easier to organise conferences and receive foreign students and researchers.

What is your position in the global university rankings?
The university is one of the 20 French establishments included in the Shanghai rankings that list the top 500 higher education establishments out of the 17,000 that currently exist. Inclusion in these rankings therefore puts our university in the top 3% establishments worldwide. We are a university described as "research intensive", thanks to our 47 laboratories, our teams of teacher/researchers and our interaction with research bodies. The university shines particularly in the planetary and universe science field, life and health sciences and economic and social sciences and mathematics, as shown by the national and international prizes won by our researchers.

Our aim is to develop maximum cooperation between the university, research centres and the private sector. For example, we have set up a technological platform shared with the perfume sector in Grasse to meet this sector's analysis and R&D needs. Similarly, a mixed "business/laboratory" building has been opened at Sophia. In the Eco-Vallée, we wish to develop cooperation initiatives of this kind with other industrial sectors.

What is your strategy regarding international co-operation?
The UNS has a long tradition of cooperation with foreign universities, particularly with central and east European countries and Russia, the Maghreb, the Mediterranean Basin and Asia. Aside from the traditional student transfer schemes, we are participating in the European Union's External Cooperation Window programme and are trialling two major projects, one in Asia and the other in Eastern Europe.

Our aim is to create true international research and training networks and include an employability aspect by identifying and partnering with appropriate socio-economic partners.

Quality apprenticeships: The new degree?

©Christopher Furlong/Getty Images/AFP

No longer the only route

More policymakers are looking beyond tertiary education to apprenticeships as a possible way of strengthening the labour market and improving job prospects for the young. But not any apprenticeship will do.

Under the guild system in medieval Europe, a journeyman was someone who, having finished his seven-year apprenticeship, travelled from town to town offering his services for a day's wages (hence "journeyman" from the French "*journée*", meaning a day). After a few years of this itinerant life, he might submit a "masterpiece" to the relevant guild, whose members would evaluate his work and decide whether to admit him to the guild and confer the title of "master" upon him.

A young person starting out today might never get a chance to present a masterpiece. The statistics are harrowing. The OECD estimates that around 20% of young people in Italy, Mexico and Spain are neither working nor in education and training. In Greece and Turkey that figure rises to 27%. In desperation over their repeated failure to find a job, many young people give up. Others continue on the treadmill of internships, and are often unpaid, despite the fact that they carry out the same tasks as their salaried colleagues.

Governments are beginning to give serious attention to apprenticeships as an answer to high (and increasingly long-term) unemployment. The three European countries which proved most resilient to the 2008 downturn all have strong traditions of apprenticeships. Germany, Austria and Switzerland register less than 9% youth unemployment, compared to the OECD average of just over 16%. The success of Germany's dual education system has aroused the interest of its stricken neighbours. Students in Germany can opt for one or two days a week of vocational training alongside regular schooling. Part of this training occurs in the workplace, for which apprentices are paid about one-third of a trained worker's salary. Earlier in 2013, Greece, Italy, Latvia, Portugal, the Slovak Republic and Spain signed memoranda with Germany to help them develop similar systems. No one is suggesting that apprenticeships alone can resolve the crisis, but more countries now believe they can do a lot to help. In June, the OECD included apprenticeships as one of the key points in its Action Plan for Youth. The G20 countries (consisting of the world's largest economies) have also called for greater investment in apprenticeships.

A fair question to ask is: why did it take so long? Germany, for example, introduced its dual education system in 1969. One reason is bias. University education has long been vaunted as a secure route to financial stability and personal fulfilment. Young people in vocational training are often stigmatised as being "not quite up to" the rigours of academia. This prejudice has cowed many young people into pursuing university studies for which they have neither the inclination nor the flair, and discouraged them from the more satisfying alternatives. Governments should abandon their absolutism towards university education and instead encourage young people with the desire to enter an apprenticeship, and they should focus especially on young school leavers, who are more than twice as likely to be unemployed than university graduates.

One successful initiative–and one that aims beyond traditional apprenticeships in manufacturing, for instance–is the UK's £25 million apprenticeship scheme to train young people, while paying them, as commercial pilots, lawyers, engineers

and accountants. These "higher level" apprenticeships are on par with university programmes. Companies will also benefit. Europe's aviation sector, for instance, will need 92 500 pilots by 2030. The UK scheme

> Governments should abandon their absolutism towards university education

has caught on. In 2012, some 3,700 people were in higher apprenticeships, a 68% increase from the previous year. The plan also aims to bring under-represented groups, such as women, into such professions.

The scheme is successful in part because it established apprenticeships in fields without such traditions, and in which future job growth is likely.

In the United States, the US Office for Apprenticeships provides seed capital to companies to develop training programmes in high-growth industries, such as information technology, health care, biotechnology and geospatial technology. In 2007, high-growth industries accounted for 46% of newly registered programmes, with 30% of all apprentices enrolled in them.

But for apprenticeships to spread through more countries, a number of obstacles need to be overcome, such as a lack of certification and rigid age restrictions, which effectively block apprentices from switching career paths or entering university, should they so choose. Employers may be reluctant to invest in apprenticeships because they fear their apprentices will be "poached" by other firms, and so may instead offer only internships and other short-term contracts. Firms may even claim that these are legitimate training programmes when they are nothing of the sort. Italy addressed this abuse of confidence in 2011 by setting the duration of apprenticeships at a mandatory six-month minimum to make them worthwhile, and at a three-year maximum to ensure that employers do not exploit apprentices by arbitrarily prolonging their training. Should a firm wish to hire an apprentice, it must have a record of hiring at least 50% of those it has trained in the past. This way, companies can tap into the skills pool only if they have already put something into it. In Australia, apprentices are certified as soon as they have demonstrated their competence in their chosen area, rather than when they have completed a stipulated training period.

Given the costs, companies could be more likely to offer apprenticeships if labour unions and the government share the burden. In Germany, for instance, social partners work together to set professional standards and exams, which are formally issued by the Ministry of Economic Affairs and Technology, and determine apprentices' salaries through collective wage negotiations. Canada and France relieve some of the pressure on employers through tax credits. France also gives additional social security exemptions to employers, especially those employing a disadvantaged or disabled young person.

In the best of times, government cash no doubt helps. But it is one thing to finance apprenticeships when there are jobs to be had, and another when youth unemployment spirals into the millions. Can governments afford to finance an entire generation?

Labour reforms that help create jobs would help pave the way forward and are at least as important as government support. Let's not forget that Germany's strong tradition of apprenticeship did not prevent it from being labelled the "sick man of Europe" in the 1990s. However, labour market reforms since then have been part of its recent successes. The OECD cautions that attempts to skirt serious reform through the adoption of early retirement schemes in a bid to open up jobs to young people won't work: the costs are heavy and the benefits few. Until the social bias towards university qualifications is removed and policymakers restore dignity to "vocational training", an unacceptable number of young people will be locked out of rewarding and productive jobs. With quality apprenticeships, tomorrow's journeymen (and women) will have that chance to learn and work in promising careers, and who knows, become "masters", too. *Lyndon Thompson*

For more information, contact Mark Keese at the OECD.

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Ageing and Well-Being

The University of Geneva addresses a challenge for the individuals and for the world

From 1980 till now, the number of people aged 60 and more went from some 380 million to more than 760 million. And the United-Nations projections predict 2 billion by 2050. Those figures are often used to provoke fear. As a matter of fact, since the world population as a whole will continue to increase, in the mid of the 21st century, elderly will represent 15 to 18 percents of our planet's inhabitants, with peaks until 28/30 percents in the most affected countries. Ageing will obviously transform our societies, but not necessarily break them. It will require a considerable effort of adaptation from not only States, but also from families and individuals.

The University of Geneva is proud to have welcomed in 1972 the first geriatric hospital of the European continent, impulse by Professor Junod, a pioneer of a humanistic approach of medicine for the elderly, someone who considered that we should not only "add years to life but also life to years". For over more than 20 years now, the Centre for the Interdisciplinary Study of Gerontology and Vulnerability (acronym CIGEV in French) defends the position that maintaining, or even increasing, individual's well-being and the social ties must be the objectives of all the answers to the ageing challenges. This is indeed what the European Union validated when 2012 was proclaimed year of the active ageing and intergenerational relations, with an emphasis on citizenship and social participation. Being positive is highly valuable but it must not hide that old age remains the period of life when losses exceed gains, where the elderly endures bereavements and the perspective of death, has to adapt his/her life style and personal identity as an old person, and to face the threat of losing his/her autonomy and becoming dependent.

This is to study those complex human processes that CIGEV developed an internationally recognized expertise in survey methods, so to hear the voice of the elderly themselves, to objectively observe their living conditions but also to capture their subjective feeling. Such ambition imposes an interdisciplinary perspective, a dialogue between social sciences, psychology, medicine, but also law and ethics. It is with this skill set that CIGEV has become one of the initiator of the National Centre of Competences in Research LIVES, which is an alliance of several Swiss universities. LIVES studies vulnerabilities across the life course and, of course, resistances and frailties in old age are an important component.

Beyond the boarder of Switzerland, a worldwide challenge like ageing requires the engagement of an international science, which is an essential part of the excellence cultivated in the University of Geneva. Among the developed countries, a network devoted to gerontological researches is rooted in the strategic partnership that engage together the Universities of Geneva, Montreal and Brussels. This group includes also Western Ontario, the Spanish Council for Scientific Research, the Swedish University of Umea and its "Aging and Living Conditions" cluster, and soon other centres in France, Japan and Korea. As a second step, this network will have to imperatively include research teams from the South, working in developing countries and emergent giants where the population will age far before a complete escape from poverty! To face this quite peculiar challenge, it will be crucial to organize intelligent transfers of knowledge and experiences, from the North to the South, but also from the South to the North. The University of Geneva will be a prominent actor in this dialogue to come.

The impact of immigrants: It's not what you think

©Mike Segar/Reuters

In the land of tabloid terrors, immigrants loom large. Flick through the pages or online comments of some of the racier newspapers, and you'll see immigrants being accused of stealing jobs or, if not that, of being workshy and "scrounging benefits".

Such views may be at the extreme end of the spectrum, but they do seem to reflect a degree of public ambivalence, and even hostility, towards immigrants in a number of OECD countries. Anecdotal evidence is not hard to find. A columnist from The Economist reported this encounter between a British legislator

> The "fiscal impact" of immigrants is more likely to be positive than negative

and one of his constituents, Phil: "'I'm not a racist,' says Phil, an unemployed resident of the tough Greenwich estate in Ipswich.'But we've got to do something about them.'"

Surveys offer further evidence. For example, a 2011 study in five European countries and the US found that at least 40% of respondents in each country regarded immigration as "more of a problem than an opportunity". More than half the respondents in each country also agreed with the proposition that immigrants were a burden on social services. This sense that immigrants are living off the state appears to be widespread. But is it true?

New research from the OECD indicates that it's not. In general across OECD countries, the amount that immigrants pay to the state in the form of taxes is more or less balanced by what they get back in benefits. Even where immigrants do have an impact on the public purse–a "fiscal impact"–it amounts to more than 0.5% of GDP in only ten OECD countries, and in those it's more likely to be positive than negative. In sum, says the report, when it comes to their fiscal impact, "immigrants are pretty much like the rest of the population".

The extent to which this finding holds true across OECD countries is striking, although there are naturally some variations. Where these exist, they largely reflect the nature of the immigrants who arrive in each country. For example, countries like Australia and New Zealand rely heavily on selective entry, and so attract a lot of relatively young and well-educated immigrants. Other countries, such as in northern Europe, have higher levels of humanitarian immigration, such as refugees and asylum-seekers.

That said, there's been a general push in many countries in recent years to attract better educated immigrants, in part because of the economic value of their skills, but also because such policies attract less public resistance. For example, a survey in the UK, where resistance to immigration is relatively high, reported that 64% of respondents wanted to reduce immigration of low-skilled workers, but only 32% wanted fewer high-skilled immigrants. Indeed, one objection that's regularly raised to lower-skilled immigrants is the fear that they will live off state benefits.

But, here again, the OECD report offers some perhaps surprising insights. It indicates that low-skilled migrants–like migrants in general–are neither a major drain nor gain on the public purse. Indeed, low-skilled immigrants are less likely to have a negative impact than equivalent locals. *Brian Keeley*

This article originally appeared on www.OECDInsights.org in June 2013

Creating Shared Value
Nutrition | Water | Rural Development

Nestlé

Nestlé
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Global energy challenges

Ulrich Benterbusch, Director of Global Energy Policy, International Energy Agency

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G20 countries are treating a range of energy issues as a central concern, but four of them require particular attention.

Seven years ago, Russia hosted the G8 for the first time. Energy was one of the central themes up for discussion, and indeed the Saint Petersburg Global Energy Security Principles agreed at the G8 summit became an important landmark, reinforcing the concept of "security of demand": it was an historic nod to the interests of energy-producing countries.

Now, seven years on, Russia is again in the role of host, this time of the G20, and again energy is high on the agenda. However, global governance has changed significantly since 2006, notably reflecting the shift in demand towards emerging markets.

In fact, energy has long been a key topic of the G20 process, and the International Energy Agency (IEA) has been fortunate to play a supporting role since the Pittsburgh Summit in 2009. The G20 energy agenda has maintained consistent and ongoing work-streams over several years, and such continuity is key to the success of the G20 and its impact on policymakers and markets.

There has been one innovative change during the current Russian presidency, and that is to gather the work under a single category of "energy sustainability", which is managed by one working group and covers both energy markets and environmental issues. The working group has had to cover a broad range of topics, but the following are particularly crucial for global energy.

Phasing out fossil fuel subsidies

Since Pittsburgh, a key energy priority of G20 leaders has been to reduce fossil fuel subsidies which encourage wasteful consumption, disproportionately benefit wealthier countries and sectors, and tend to distort energy markets. Together with OPEC, the OECD and the World Bank, the IEA has produced a series of reports measuring the scope of subsidies and their cost (around US$523 billion in 2011), and has also outlined a global roadmap to phase them out. In 2012, G20 leaders welcomed an important progress report on that phaseout. To spur more action, and at the suggestion of finance ministers, in 2013 G20 leaders will introduce a voluntary peer review process for G20 members concerning the reduction of fossil fuel subsidies. Under this system, G20 countries may be assessed on a voluntary basis by G20 peers. This is a major step forward by the Russian G20 presidency, particularly given the extent of the subsidies issue that Russia and other G20 members must still address.

Price volatility

It was in response to the global financial and economic crisis that the G20 became the primary economic council of major economies in 2009, so it should come as little surprise that major oil price fluctuations, such as those of the past year, have remained a key preoccupation of the G20. Based on previous work in this area, the 2011 French G20 presidency made commodity price volatility a particular priority, and discussions on oil price formation and transparency became

mainstays of the agenda. That same year, the IEA, together with OPEC, the International Energy Forum (IEF) and the International Organization of Securities Commissions (IOSCO), delivered a report highlighting the role, functioning and oversight of the Price Reporting Agencies (PRAs)–those vital, privately owned publishers and information providers who report oil prices transacted in physical and some derivative oil markets.

In 2012 the IEA was tasked by the G20 to prepare a policy paper on price formation. The key finding of this analysis was clear: there was no evidence that financial flows into global oil markets caused price movements over a sustained period of time in ways that could not be explained by market fundamentals. Under the Russian presidency, a third joint IEA-IEF-OPEC workshop on price formation was held in March 2013, and work will continue into 2014, when a key auditing report on the PRAs is due.

Market transparency

G20 leaders have been committed to increasing market transparency based on accurate and timely energy data. The Joint Organisations Data Initiative (JODI) has therefore become a flagship international project and is actively promoted by the IEA. Initially focused on oil, this international statistical database is also in the process of being extended to include natural gas statistics as well.

This work will continue through Saint Petersburg. JODI-Oil will be comprehensively assessed for its added value, and JODI-Gas will be reviewed following its recent launch.

Climate change: Towards Paris 2015

While fossil fuel subsidies, price volatility and data transparency will remain priorities for government leaders and finance ministers, sustainability, green growth and in particular climate change will likely garner the most public attention, both in Saint Petersburg and onwards to the G20 Summit in Brisbane in 2014. Then, all eyes will be on preparations for the multilateral climate change negotiations, set to take place in Paris in 2015. Already this year, however, the global efforts to mitigate climate change passed a grim milestone when carbon concentration in the atmosphere topped 400 parts of CO_2 per million. That milestone marks the collective failure to fulfil national and international pledges to limit global temperature rises to 2°C over the long term. In short, the international community is drifting off-track, and we are still two years away from negotiations in Paris.

It is against this backdrop that in June 2013 the IEA released a *World Energy Outlook* special report, "Redrawing the Energy-Climate Map". The report examined four critical steps that can be taken before 2020, in the absence of implementation of a multilateral agreement on climate change, to keep the world on track to limiting long-term global temperature rises to 2°C. These time-critical measures, which incur zero net economic cost and use proven technologies, can help keep the fast-closing door open to that important international goal. Of the four (which also include limiting the construction of the least-efficient types of coal power plants, minimising methane emissions from upstream oil and gas production, and accelerating the phase out of fossil fuel subsidies), energy efficiency measures accounted for nearly half of all carbon savings over the outlook period to 2020. These and other "stopgap" measures must be considered in the run-up to 2015, and we at the IEA encourage the G20 leaders to adopt them.

Co-operation matters

Over recent years, the IEA has continuously broadened and deepened its bilateral co-operation with key emerging economies. This enhanced engagement, a natural response to global economic shifts, has been driven by the conviction that closer co-operation between key global energy players benefits not only those countries actively involved, but also the world economy as a whole. It is against this background that the IEA and a range of non-IEA G20 countries are currently discussing the creation of a multilateral platform for association and closer co-operation on key energy issues. With this initiative the IEA is hoping to contribute to shaping the future development of global energy governance, in which the key emerging economies will play a major role. The involvement of the IEA in G20 energy work will help to further build the trust and confidence needed among all stakeholders for the success of this welcome initiative.

> "Global efforts to mitigate climate change have passed a grim milestone

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Lead and crime

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You've probably heard that silly old adage, where someone asks someone else if they "ate lead paint chips" as a child, after they did something stupid or silly. The effects of lead poisoning, however, are not silly. Many academics believe lead poisoning in children correlates to spikes in crime more than any other single factor. Granted, though it takes more than a noticeable pattern to establish causality, the meta-analysis of other factors all seem to point in the direction of lead.

Humans have been using lead for thousands of years. Ancient Rome used it for everything from hair dye to wine sweetener, as did the Greeks and European aristocracy, up until the 17th century: smearing their faces with lead-filled goo was the daily norm for well-to-do women. Some academics even believe lead is partially responsible for the fall of Rome, as no society bathed in that amount of detrimental poison could flourish indefinitely. And in the US, former New York City Mayor Rudolph Giuliani's "broken window" policing may have less to do with his policies and more to do with coincidental environmental changes.

Or take transport. After years of research endeavouring to reduce knocking and pinging in cars with high-performance engines, leaded gasoline was developed in 1921. As an element, it doesn't just "go away," and lead removal is difficult and dangerous. With the influx of lead-fuelled automobiles on the crowded streets of the US, emissions skyrocketed and lead seeped into the soil and surrounding environment. Leaded fuel hasn't been used in the US and many other developed countries since the 1980s, though there is still lingering sensitivity regarding potential exposure to lead. As a society, people now exercise caution when choosing everything from children's toys to motorcycle parts. Additionally, lead paint was also used on an estimated 38 million to 62 million homes in the US. Lead was also used for painting everything from toys to cribs and baby cots, and when it starts to chip and peel, it is often ingested by children, for whom it is particularly harmful.

Striking correlation

Economist Rick Nevins first noticed this correlation while working on the issue of lead paint removal for the US Department of Housing and Urban Development in 1994. Many studies had linked lead to lowered IQ and juvenile delinquency, but Nevin believed the correlation went even further than that. He noticed that lead exposure formed a U-shape in society from the 1940s through the 1970s, and that crime rates followed the exact same pattern, with a lag time of 23 years. The patterns fitted so exactly that they could explain 90% of the violent crime variation in the US. Other studies have just bolstered this finding, from a four-fold increase in homicides in US counties with the highest lead pollution, to a 90% difference in aggravated assault. The difference is so striking that New York City crime rates have dropped an astounding 75% since the early 1990s.

The effects of lead are alarmingly widespread. In fact, a 1996 declaration on risk reduction for lead by the OECD sets out the issues plainly, calling for national and co-operative efforts to reduce risks from exposure to lead.

Fortunately, our collective attempts to reduce its usage have made an exquisite impact on many lives. In the US, environmental remediation companies have worked to decontaminate massive lead-poisoned areas, such as the Massachusetts Military Reservation Training Range, where 36,500 tons of lead was treated. In smaller quantities, such as the paint potentially in your home, it's safer just to paint over the old lead paint, sealing yourself off from exposure. There are no safe levels of lead for the human body to contain, so it is vital to test your children and yourself, and watch out for lead-heavy materials and areas.

Angel Rodriguez, special to the OECD Observer

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Business brief

Is the long view the answer to today's epidemic of "instantaneous"?

Photographer: Bernard Fougères

If any word sums up today's world, it's definitely "instantaneous." News spreads at the speed of light. Content is interpreted in mere seconds. Forecasts proliferate at a frenzied pace. But all this has a drawback: volatility increases. In such a context, it's vital to take a step back. And it soon becomes clear, maintains the Caisse de dépôt et placement du Québec, that a long-term view is more relevant than ever

Obviously the world has changed. It is unstable, instantaneous and profoundly interrelated. On the financial markets, the result is fluctuations that are ever sharper and more rapid. This environment increases the nervousness of investment managers, who often chase short-term performance to meet their clients' expectations. In doing so, they buy and sell on rumour, a practice that accentuates volatility. The one feeds off the other, creating a vicious circle.

In this context, the Caisse has decided to focus on the fundamental aspect of its mandate: the long term. It manages the assets of 29 pension and insurance funds, which by definition have long-term obligations. It must meet their needs while contributing to economic development. The concept of sustainability is critical to its mission. It is therefore necessary – and relevant – to measure its investment horizon in terms of years – three, five, 10 or even more – rather than on a quarterly or semi-annual basis.

Intrinsic value rather than financial smoke and mirrors

To apply this vision, the Caisse bases its investment strategy on a central element: intrinsic value. Above all, it targets assets whose value is directly related to the real economy. This principle means investing in:

- companies that offer useful services or manufacture everyday objects;
- Infrastructure that facilitates economic activity; and
- buildings where people live, work or shop.

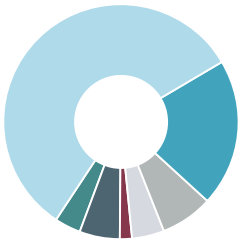
For such investments to be profitable they must be based on stringent criteria and strong convictions. Research is therefore of vital importance – economic and financial research, of course, but also multidisciplinary research based on operational and industry expertise. The objective is to select well-conceived projects and well-managed businesses, not necessarily those that are part of an index but those that are the best positioned. That is why the Caisse has begun adding specialists from various fields to its team – engineers, geologists, telecom and transport experts, and so on –, to further enhance its expertise.

Solid partners: a necessary complement to internal expertise

Even so, the Caisse is well aware that no one can be an authority on everything, especially in markets far from home turf. It plans to increase its investments in emerging markets and therefore needs complementary expertise. To that end, it forms partnerships with solid and *locally*, well-established companies.

Caisse depositors' total assets* by region

As a percentage – as at 31 December 2012



Canada	57.4
United States	20.3
Euro zone	7.2
United Kingdom	4.5
Japan	1.5
Emerging markets	5.7
Other	3.4
Total	**100.0**

*Depositors' assets totalled CA$213.8 billion as at 31 December 2012

This strategy has already proved itself splendidly in Brazil, where a partnership with Ancar, a real estate company, has enabled a Caisse subsidiary to become a major player in the local shopping centre industry. To ensure success and foster mutual understanding, partners with common interests need to be identified.

An approach with several advantages

Focusing on the long-term is impossible without short-term costs. Between the time when an investor commits to an infrastructure project and the time when it reaps the benefits, many years may go by. The same is true of an investment in the growth of a business. Such a strategy requires vision, patience and courage.

But the advantages are also undeniable. Companies gain solid financial partners they can rely on over the long term. Regions gain investors that sustain their economy with developmental projects. And investors with a long-term view, like the Caisse, also stand to gain because they obtain access to major transactions and they can take the time to allow acquired assets to reach their full value. It's a winning strategy for all stakeholders.

Measuring development goals
Towards a data revolution

Johannes Jütting, Manager, PARIS21

Development efforts are often hampered by poor or non-existent data. While attempts are being made to address this, much more needs to be done to improve official data by developing countries themselves, particularly as new development goals are set for the post-2015 period.

Does singer Bono from the group U2 sense a data revolution brewing? He recently became a self-declared "factivist"–an evidence-based activist, with poverty first and foremost in his sights. Bono claims that if the current downward trajectory continues, "we can get closer to the 'zero zone' where extreme poverty is virtually eliminated by 2028". Could he be right? The problem is, we may never know, not unless we improve the quality and availability of the vast array of data for measuring progress now starting to flow. With the 2015 deadline for the Millennium Development Goals (MDGs) looming, the UN High-Level Panel on the Post-2015 Development Agenda recently called for a "data revolution". The MDGs and corresponding national development goals have been bearing fruit with increased statistical production and use. More data are available, including big data, and there are more strategic approaches to developing statistical capacity. Financial support for statistics (most of it coming from the European Commission, the World Bank, the United Nations Population Fund (UNFPA) and the United Kingdom) has substantially increased: US$2.3 billion was committed to statistics over the period 2010-12, a 125% increase in global contributions since 2008. Along with this, more than 100 countries have adopted the National Strategy for the Development of Statistics (NSDS) approach, the international benchmark for developing statistical capacity.

Why, then, the call for a "data revolution"? One of the weak points to address is official data at the national level. These are needed to measure progress and achieve sustainable results. The trouble is, there is a misalignment between the MDGs and the national capacity needed to measure and achieve them. This leads to discrepancies between nationally and internationally reported numbers.

Take education in Mozambique, for example, where national estimates show that 90% of primary pupils who start grade one go on to finish primary school. That's nearly double the corresponding UN estimate, creating an unreliable basis for policymakers to work from (see graph). To be sure, many similar data gaps have been reduced, in Nepal and Zambia for instance, but too many persist, to the detriment of development programmes.

How can we get better, more reliable data? Resources are key: less than 1% of official development assistance (ODA) goes to developing statistical capacity in countries. Even were this proportion to increase, we would need a global strategy that identifies gaps in data production, increases the accessibility of existing statistics and galvanises international efforts to develop a baseline for gauging performance after 2015.

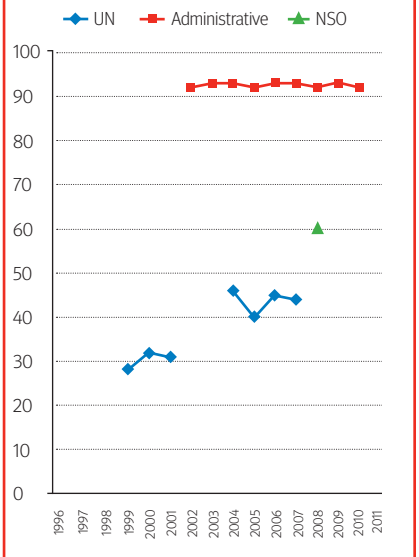
Improving timeliness would be one goal of such work. Even in countries where methods have been optimised, policymakers get frustrated about not having the kind of data that they need soon enough, whether for tackling food shortages or building new schools. "Bring me the data" is how former Nigerian President Obasanjo voiced this dissatisfaction. He is right to make such a plea. Despite an explosion in data availability, official statistics in many developing countries are often of varying quality, out of date and reported far too infrequently.

But while government leaders face a vast knowledge rift, more could be done with existing material. Data and surveys are out there–they just need to be made more accessible.

The Accelerated Data Program (ADP) is improving this situation, providing support to 45 national statistical offices to maintain online survey catalogues.

Reporting gap

% of pupils starting grade one who reach last grade of primary school, Mozambique



Source: PARIS21

Users can search the data they need and access it freely. The Central Statistical Agency of Ethiopia has published more than 100 surveys in its catalogue with a clear microdata access policy. Rwanda, Tanzania and Nigeria also have an open dissemination policy and distribute microdata files to researchers.

Still, more can be accomplished, particularly by using technological innovations. Bill Gates remarked that "innovations in measurement are critical to finding new, effective ways to deliver these tools and services to the clinics, family farms and classrooms that need them". The rapid expansion in mobile and Internet connectivity and the rapidly declining costs of innovative technologies offer hope for statistical surveys of all kinds.

Mobile phones are a good example. In Kenya, 93% of households have a mobile phone, and adoption is increasing fast. For statisticians, mobile phones offer the potential of modernising and bolstering traditional methods of collecting statistics through household surveys with the likes of phone surveys, text message surveys, the deployment of electronic forms on digital survey devices and more.

The "data revolution" is for, about and by people. Little wonder that so many international organisations, including the OECD, are providing more open and accessible data, while civil society groups such as ONE, Oxfam and Development Initiatives actively campaign for more democratic, open and human data, based on, say, well-being rather than pure economic growth.

Can development really benefit from this? As Shaida Badiee from the World Bank recently told a PARIS21 global partnership meeting, statistical capacity first has to become smarter. Demand for data is at an all-time high and the "data revolution" provides us with an historic opportunity to tap into open and big data sources. From long-standing goals, such as fighting poverty and disease, to more contemporary targets concerning gender and child literacy, the post-2015 development goals can be based on more robust and instantly measurable indicators than ever before.

Of course, better statistics are not enough to improve policymaking, nor indeed the human condition. As PARIS21 knows only too well, bad politics can stop even the best data from being applied. However, facts that are gathered widely and deeply with the involvement of people cannot be ignored for very long.

That is why PARIS21 is actively helping countries develop their statistical capacity and get the evidence out. Let's call it a kind of "factivism", which we believe can give the "data revolution" some teeth and, as Bono hopes, help shake poverty for good.

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Visit www.paris21.org

PARIS21

The Partnership in Statistics for Development in the 21st Century (PARIS21) is a global partnership of statistics users, producers, donors and technical partners, from both developed and developing countries. PARIS21 works on improving national statistical capacity and the use of statistics and reliable data in the decision-making process. One of its key roles since its inception in 1999 has been to help countries develop National Strategies for the Development of Statistics (NSDS), providing vision and guidance to improve capacity. Many PARIS21 stakeholders are at the forefront of surveying techniques, taking part in the International Household Survey Network (IHSN, www.ihsn.org), which fosters co-ordination among international organisations and agencies. It is complemented by the Accelerated Data Program (ADP), which supports better quality survey data and access to survey data. IHSN and ADP are implemented by PARIS21 in close collaboration with the World Bank.

Business brief

See beyond boundaries

The Université de Sherbrooke is a part of the North American university landscape that just can't be ignored. Since its establishment in 1954, the Université de Sherbrooke has consistently put student success at the centre of its concerns, integrated innovation in all of its actions, and become a genuine model for pioneering in terms of teaching, research, and sustainable development.

"For nearly 60 years," explained the university's rector, Professor Luce Samoisette, "the Université de Sherbrooke's exceptional influence has been built on unique models of networking between the university and the community. In teaching as well as research, we create collaborative environments in which researchers and students from all disciplines work with stakeholders from various backgrounds towards the same goal of responding to society's needs. This approach stretches back to the founding of our institution and is in our genes."

Located in the beautiful Eastern Townships in the province of Quebec (Canada), the Université de Sherbrooke is an urban institution nestled amidst mountains, lakes, and forests. Its three campuses have a total student population of some 37,000 in all disciplines, divided among 47 undergraduate programs, 54 master's programs, and 32 doctoral programs, all delivered in French. With more than 75 research chairs, the Université de Sherbrooke stands out as the first Canadian university to top the C$100 million mark in royalties for faculty discoveries.

In 1989, Université de Sherbrooke researchers designed the ACELP speech compression technology, which today enables billions of people to communicate each day on mobile telephones and with Internet-based audio distribution applications. Innovation at the Université de Sherbrooke also means an outstanding book on the origins of AIDS, one of 19 Canada Excellence Research Chairs, a wholly new electronics dictionary in French, and hundreds of other examples.

As a driving force in open innovation, the Université de Sherbrooke joined with IBM and Teledyne Dalsa to create Canada's largest microelectronics centre: MIQRO INNOVATION COLLABORATIVE CENTRE (C2MI). Built on an investment of more than $200 million, this research infrastructure provides for the development of new technologies in fields as varied as health, telecommunications, and new media. In a joint effort with BRP, the university also founded the *Centre de technologies avancées* (centre for advanced technologies), which has yielded a range of innovations particularly in the field of electrical transmission. Just recently, the university founded the Canadian Collaborative Center on Concentrated Photovoltaics, whose main partners are the University of Ottawa and the PROMES group at CNRS in France. The university is also an important player in BioFuelNet Canada, a network of centres of excellence on advanced biofuels. Through its partnering strategies, the Université de Sherbrooke is at the forefront in the emergence of cutting-edge technologies to reduce our dependency on fossil fuels. Moreover, the university's commitment to sustainable development isn't limited to research.

Because of its construction of new environmentally friendly buildings, creation of natural spaces, responsible waste management, and reduction of greenhouse gases, the Université de Sherbrooke has been named Canada's "greenest" university. Nothing less than a laboratory for integrating sustainable development, the Université de Sherbrooke ranks sixth in the world according to the GreenMetric World University Ranking.

Known for its ingenuity and boldness, the Université de Sherbrooke has also revolutionised teaching, particularly through the use of problem-based learning (PBL). PBL is an integrated approach that stimulates students to take charge of their learning and to develop autonomy, which is an essential component in a successful career. The university also serves as a model in implementing PBL strategies.

Moreover, Sherbrooke was the **first French-speaking university** to adopt the cooperative-learning program, which alternates academic study with work internships. Today, the Université de Sherbrooke is one of the largest universities in North America using this teaching method, which ensures that its students are better prepared to meet the challenges in their chosen fields. It comes as no surprise, therefore, that the Université de Sherbrooke stands out for its excellent reputation among employers, making it one of the most valued universities in Canada.

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Dignity and people

His Royal Highness Crown Prince Haakon of Norway

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Dignity is all about people. Dignity is intrinsic–we're all born with it. But dignity is also relational and is created among, and between people. Many of us don't think about this, or notice it in our daily lives. But that's only because we, our families and friends are fortunate enough to live relatively privileged lives. And because it can be difficult to establish the number of people living in difficult conditions–and their voices are less often heard.

The OECD compiles statistics, indicators and analyses involving large quantities of numbers. GDP in euros, health spending in dollars, school drop-out rates, years of education, unemployment figures. But behind all these numbers, there are individuals–people of flesh and blood.

If you think about it, 100 does not always equal 100. There is a considerable difference between a group of 100 people full of self-confidence, with trust in each other and good basic skills, and a group of 100 people with low self-esteem, a lack of trust and poor basic skills.

With the first group you can certainly achieve success in the traditional way. With the latter there might be more hurdles to overcome.

Most people consider it important to be able to support themselves, to have the opportunity to fulfil their potential and to have a certain level of security. A steady and decent job is often essential for achieving these goals. A period of long-term unemployment may therefore be damaging to people's self-esteem and sense of dignity. The unemployed–and especially the young people among them–need our support. As societies we have to work hard to create jobs, to establish labour market programmes, to provide access to social benefits and to equip the unemployed with adequate skills.

I mentioned that the first Norwegian constitution was among the most democratic of its time. But democracy–in the modern sense of the word–was not truly established anywhere 200 years ago, because only some men and no women could vote.

It may be that 200 years ago women did not feel a lack of dignity because they didn't have the right to vote. No woman in the world had that right and thus it may have been considered natural. 120 years ago, however, pioneering women began to feel that the denial of their fundamental civil rights simply wasn't right. They were being treated as inferior human beings.

In two weeks' time, on 11 June, Norway will celebrate the centenary of women's right to vote in Norway. Norway was the fourth country in the world to introduce universal suffrage, with women and men enjoying equal democratic rights. Our fellow OECD members New Zealand, Australia, and Finland took the lead. 100 years ago it was a controversial and pioneering decision; today of course it would be unthinkable to reverse it.

Today, though, when all our countries have universal suffrage, the "equality challenge" has moved into other arenas. There's still a lot of work to be done when it comes to gender equality in all countries, and a lot remains to be done to ensure that your background doesn't restrict your possibilities unreasonably.[...]

[There are] three lessons that can also be applied to other organisations and to societies.

Lesson number one: If the foundations are made of values such as dignity, trust and equality, the building above will be more solid. Lesson number two: Wise and committed leadership is important and a leader must lead–and stand as an example–also when it comes to softer, interpersonal areas. The issue of dignity should be fundamental, not just the icing on the cake.

Finally, lesson number three: The quest for a more inclusive, civilised and humane society is never-ending. We have to work persistently every day–independently and together with others. The task is demanding, but extremely rewarding. [...]

Extracted from the oening speech to OECD Week, "It's all about people: Jobs, Equality and Trust–and dignity", 28 May 2013. The full text is available at www.oecd.org/forum/

Growth, trust, sustainability

OECD Forum, 28-29 May 2013

Promoting inclusive growth; rebuilding trust; fostering sustainability: these were the three themes that drove discussions at the annual OECD Forum in May 2013. Since 2000 the OECD Forum has become a major stakeholder summit and is the traditional curtain raiser of OECD Week, being held in conjunction with the Ministerial Council Meeting. The public event provides an opportunity for people from all countries and backgrounds–business, labour, civil society, students and academics, as well as ministers–to debate and understand global challenges and to feed their views into the ministerial discussions. This year some 1,520 participants from 63 countries engaged with 176 speakers to discuss a range of pressing global issues, while millions more were able to participate online.

Reminding a packed audience of the importance of dignity in people's lives in his opening speech, Crown Prince Haakon of Norway set the tone for the sessions that followed (see page 53). These started with a presentation of the OECD Better Life Index, which received more than 2 million visits from 180 countries since its launch in 2011, through lively debates on the future of education, banks, small businesses, the global middle classes, energy and politics, to discussions about austerity versus growth, trust in government, and how global value chains are changing trade. Inequality, gender, tax, Africa's renaissance, and the presentation of the latest biannual OECD Economic Outlook were features of the second day of the OECD Forum.

The OECD Forum is designed for full audience participation, with its "idea factories", food for thought lunchtime debates, live tweeting and interactive social media platforms, as well as a special custom-designed Forum app.

The soundbites below give just a flavour of the discussions. See www.oecdforum.org for more detail.


JOBS
"The global tax issue is about corporate social responsibility. Companies are in the process of reviewing how they want their footprint to be perceived by consumers. It is in their business interests to behave more cooperatively."
Fleur Pellerin
Minister delegate, SMEs, Innovation and the Digital Economy, France


'Banking's DNA hasn't changed… As soon as trust is regained, the animal will be back to its old tricks.'
Joris Luyendijk, The Guardian
TRUST


EQUALITY
"Equality is not a women's problem, it's a business problem."
Ronnie Goldberg, Executive Vice-President and Senior Chief Policy Officer, USCIB

It's all about people
Jobs, equality and trust

Meeting of the OECD Council at Ministerial Level, Paris, 29-30 May 2013

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After more than five years of financial, economic and social turmoil, the world continues to face significant challenges, including low growth, high unemployment, rising inequality and a loss of trust in government. Comprehensive strategies that put the needs of people at their centre are required to achieve strong, sustainable and inclusive growth.

This was the context in which the Ministerial Council Meeting (MCM) was held last May. Under the chairmanship of Norway and supported by vice-chairs Australia and Estonia, over 80 ministers of finance, economy, foreign affairs and trade from OECD countries, key partner countries and the Russian Federation met to discuss concrete solutions to restore growth, with the emphasis on "jobs, equality and trust".

For the Norwegian minister of finance, Sigbjørn Johnsen, who chaired the meetings, putting the needs of people at the centre of the discussions was key: "We are working to deliver meaningful outcomes that will change the outlook on key issues that matter for people's lives like unemployment, youth, gender, tackling inequalities and fostering growth."

One of the key outcomes of the ministerial meeting was for ministers to commit to an OECD Action Plan for Youth, while underlining the importance of strengthening the social policy response to the crisis.

The Ministerial Council Statement, issued after the meeting, spells out this and other achievements of the two-day meeting. For instance, in recognising the importance of addressing inequalities, ministers adopted the Council Recommendation on Gender Equality in Education, Employment and Entrepreneurship, and committed "to deliver progress on gender equality". They also reaffirmed their commitment to rebuilding trust in governments, markets and institutions by combatting corruption, strengthening financial regulation and promoting open government.

Several steps forward were taken at the MCM, on the issue of making tax systems more efficient, fair and transparent, including a Declaration in support of the OECD's work on Base Erosion and Profit Shifting, and a call on all jurisdictions to move towards automatic exchange of information for tax purposes.

Ministers also reaffirmed their commitment to a rules-based, open trading and investment system, and to resisting protectionism in all its forms for the sake of sustained global economic recovery, jobs and development.

New thinking

Unblocking the road to a strong and sustainable recovery was never far from discussion, and ministers welcomed the OECD's initial steps in developing the New Approaches to Economic Challenges initiative (NAEC), which they looked forward to seeing progress on by the next MCM in 2014. In the meantime, ministers welcomed the OECD's work on Global Value Chains (GVC) and on measuring Trade in Value-Added, viewing GVCs as a powerful driver of growth and productivity, and a support for job creation, which could benefit developed and developing countries alike. In 2012 ministers had endorsed the Development Strategy and this year welcomed the progress made since then in mainstreaming development into the OECD's work.

Global reach

The OECD has expanded its membership considerably in recent years, and at the 2013 MCM, ministers welcomed the interest expressed by a number of countries to accede to the OECD, as this shows the "continuing relevance and impact" of the organisation's work and its importance as a "global and flexible policy network". They reiterated their "desire to see the Russian Federation complete its accession" in line with the Accession Roadmap. Ministers also welcomed the decision to open membership talks with Colombia and Latvia, and to review the situation "with a view to taking a decision to open accession talks with Costa Rica and Lithuania in 2015."

In the meantime, ministers would continue to deepen their relations with Key Partners–Brazil, China, India, Indonesia and South Africa–and welcomed the role the OECD has been playing at the global and regional level, including at the G8 and the G20.

For the full Ministerial Council Statement, Chair's summary, and other ministerial documentation, see www.oecd.org/mcm

Recent speeches by Angel Gurría

© Osman Orsal/Reuters

For a complete list of speeches and statements, including those in French and other languages, go to **www.oecd.org/about/secretary-general/publicationsdocuments/speeches**

Closing the tax gap

19 July 2013
Remarks delivered for the G20/OECD Action Plan on Base Erosion and Profit Shifting (BEPS), Moscow, Russian Federation

Global Economy and Framework for Growth

19 July 2013
Remarks delivered during G20 Finance Ministers and Central Bank Governors Meeting, Moscow, Russian Federation

Tackling the social tragedy of unemployment

16 July 2013
Opening remarks delivered in Paris, France

Launch of Aid for Trade at a Glance 2013

8 July 2013
Remarks delivered at the 4th Global Review of Aid for Trade, Geneva, Switzerland

The Construction of a New International Economic Order

26 June 2013
Video message delivered at the International Conference on Global Value Chains and Structural Adjustments

Making Responsible Business Conduct Everyone's Business

26 June 2013
Opening remarks delivered at the Global Forum on Responsible Business Conduct, Paris, France

Integration of Russia into global economic institutions: accession to the OECD

20 June 2013
Remarks delivered at the Saint Petersburg International Economic Forum 2013, Saint Petersburg, Russian Federation

Regional economic communities: integration to compete and pathway to inclusive globalisation

20 June 2013
Remarks delivered at the Saint Petersburg International Economic Forum 2013, Saint Petersburg, Russian Federation

Crisis in capitalism: can the modern welfare state and global competitiveness be reconciled?

20 June 2013
Remarks delivered at the Saint Petersburg International Economic Forum: Russia Today Open Televised Debate, Saint Petersburg, Russian Federation

Promoting a new mode of economic growth as the B20 priority for 2013

20 June 2013
Talking points presented by Angel Gurría at the B20 Plenary Session, Saint Petersburg, Russian Federation

Migration and the welfare state in times of crisis

13 June 2013
Remarks delivered at the launch of the 2013 edition of the International Migration Outlook, Brussels, Belgium

A New Economic Cycle, New Balance

10 June 2013
Remarks delivered at the 19th Conference of Montreal International Economic Forum of the Americas, Montreal, Canada

Opening Ceremony of the 2013 World Outlook Conference

6 June 2013
Remarks delivered in Beijing, China

Innovation: the next frontier?

5 June 2013
Remarks delivered during the Opening Ceremony of the 4th Global Forum of Leaders for Agriculture Science and Technology (GLAST), Beijing, China

OECD Secretary-General statement on events in Bangladesh

4 June 2013
General statement on events in Bangladesh

Global inequalities: how can they be addressed?

3 June 2013
Remarks delivered in Trento, Italy

Signing Ceremony of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters

29 May 2013
Opening remarks delivered in Paris, France

G20 Russian Presidency / OECD – Stocktaking Seminar on Global Value Chains

29 May 2013
Opening remarks delivered in Paris, France

People First! – Secretary-General's Opening Remarks to OECD Forum 2013

28 May 2013
Opening remarks delivered at the OECD Forum 2013 in the OECD Conference Centre, Paris, France

Mobilising Private Investment in Sustainable Transport

22 May 2013
Remarks delivered at the International Transport Forum, Leipzig, Germany

Ports: How to Get More Value for Money?

22 May 2013
Remarks delivered at the International Transport Forum: OECD Side Event on Ports, Leipzig, Germany

Smart industrial policies for development

15 May 2013
Closing remarks delivered at the launch of the 2013 OECD Perspectives on Global Development, Paris, France

Calendar highlights

Please note that many of the OECD meetings mentioned are not open to the public or the media and are listed as a guide only. All meetings are in Paris unless otherwise stated. For a comprehensive list, see the OECD website at **www.oecd.org/newsroom/upcomingevents**, which is updated regularly.

SEPTEMBER

1-6	**World Water Week**, with launch of two OECD reports: **"Water Security: Managing Risks and Tradeoffs"**; **"Water and Climate Change Adaptation: Policies to Navigate Unchartered Waters"** with the Secretary-General. Stockholm, Sweden.
3	Statistics release: **Consumer Price Indices**.
4	Launch of **Interim Economic Assessment**. St. Petersburg, Russia.
5-6	**G20 Leaders' Summit**. Participation of the Secretary-General. St. Petersburg, Russian Federation.
9	Statistics release: **Composite Leading Indicators**.
10	Statistics release: **Harmonised Unemployment Rates**.
12	Launch of **Ireland Economic Survey**. Participation of the Secretary-General and news conference in Dublin, Ireland at 10.00am (Dublin time) - 11.00am (Paris time).
12	OECD statistics news release: **G20 GDP Growth Q2, 2013**.
12-13	Conference **"Shrinking cities in Europe"** (LEED Programme). Essen, Germany.
23-24	**Global Forum on Environment Climate Change Expert Group – Plenary**.
25-27	**European Forum for New Ideas**. Participation of OECD. Sopot, Poland.

OCTOBER

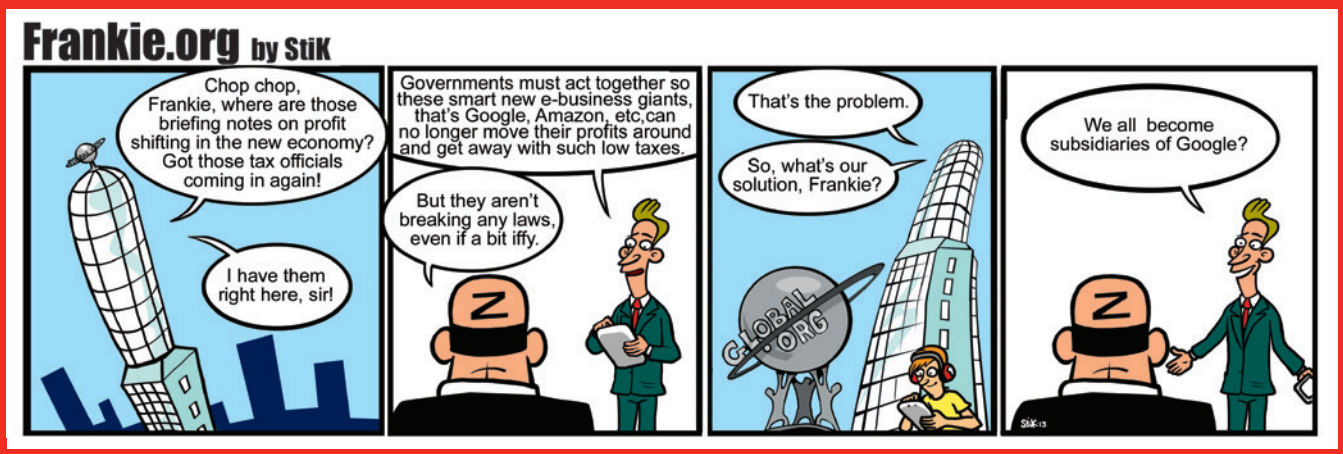
1	**Parliamentary Assembly of the Council of Europe (PACE)** annual debate on OECD. Strasbourg, France.
1	Statistics release: **Consumer Price Indices**.
2-3	Education Ministerial Meeting **"Fostering skills and employability through education"**. Participation of the OECD Secretary-General. Istanbul, Turkey.
2	Launch of **Environment at a Glance**. See OECD work on Environment.
7	**13th International Economic Forum on Africa**. Africa 2.0: Harnessing natural resource wealth for economic transformation.
8	Launch of **OECD Skills Outlook 2013** and results of the **OECD Survey of Adult Skills (PIAAC)**, with the participation of the Secretary-General. Brussels, Belgium. See OECD Skills Strategy.
9	Statistics release: **Composite Leading Indicators**.
10	Statistics release: **Harmonised Unemployment Rates**.
11	OECD Statistics news release: contributions to **OECD GDP growth Q2, 2013**.
11-13	**2013 Annual Meetings of the World Bank Group** and the International Monetary Fund. Participation of the OECD Secretary-General. Washington D.C., USA.
15	Statistics release: **Quarterly Employment**.
15-18	Supporting the competitiveness of Ukraine's agribusiness SMEs (Trento -Italy), a capacity building seminar organised by the **OECD LEED Trento Centre** and the **OECD Eurasia Competitiveness programme** with the support of the European Union and the government of Sweden.
18-19	Launch of: **Latin American Economic Outlook 2014** at the Ibero-American Summit of Heads of State and Government. Participation of the OECD Secretary-General. Panama City, Panama.
29	Statistics release: **Consumer Price Indices.**
29-30	**OECD E-Leaders 2013: ICT Governance to Deliver Public Value.** Bern, Switzerland.

NOVEMBER

12	Launch of **Government at a Glance**. See OECD's work on Governance.
12	Statistics release: **Composite Leading Indicators**.
12	Launch of: **World Energy Outlook 2013**. London, United Kingdom.
13	Statistics release: **Harmonised Unemployment Rates**.
19	OECD statistics news release: **OECD GDP Growth Q3, 2013**.
28	Statistics release: **Quarterly Trade**.

DECEMBER

3	Launch of **PISA 2012**, focusing on mathematical literacy. PISA: OECD Programme for International Student Assessment.
3	Statistics release: **Consumer Price Indices**.
4-5	**Better Cities for Better Lives**: Bridging national and local policies to deliver growth and well-being, Fifth OECD Roundtable of Mayors and Ministers, organised by the OECD Urban Round Table and the French authorities. Marseille, France.
5-6	**Regions and Cities**: where people and policies meet, ministerial meeting of the OECD Territorial Development Policy Committee. Marseille, France.
5-6	**Green Growth and Sustainable Development Forum**. OECD, Paris.
9	Statistics release: **Composite Leading Indicators**.
10	Statistics release: **Harmonised Unemployment Rates**.
12	OECD statistics news release: **G20 GDP Growth Q3, 2013**.



Cleaner Dutch energy: A tax success?

©Mischa Keijser/Cultura Creative/AFP

Since 1997 the Netherlands has had a tax allowance scheme aimed at promoting investments in energy-saving technologies and sustainable energy production. This so-called Energy Investment Tax Allowance, or EIA to the Dutch, reduces up-front investment costs for firms investing in the newest energy-saving and sustainable energy technologies. The basic design of the EIA has remained the same over the past 15 years: firms investing in technologies listed in an annually updated "energy list" may deduct some of the investment costs from their taxable profits.

Does the scheme work? An OECD working paper, "Lessons from 15 Years of Experience with the Dutch Tax Allowance for Energy Investments for Firms", draws four valuable lessons. First, it finds that the use of tax revenues to subsidise investment in energy-efficient technologies and renewable energy is not very different from using straight subsidies, as long as budgetary rules impose enough accountability on such tax expenditures. A second finding concerns the risk of "free riding" by firms that would have made the investments even without the tax incentive. This is found to be the policy's main weakness, but the problem seems to be manageable.

A third lesson is that the use of an annually updated energy list makes the regulation flexible, allowing policy to refocus and apply tighter standards if necessary. The list also helps match supply and demand for new technologies.

It appears that using only the technology list–without the additional benefit of receiving a subsidy–may not be sufficient for companies to switch to these new energy-saving technologies. But the subsidies do not need to be large to work. Finally, policymakers should be careful to consider how such a subsidy scheme might interact with other policy instruments when designing such tax incentives that might have complementary objectives. The report recalls a period of turbulence with the EIA from 2001 to 2007, which was primarily brought about by the presence of other instruments that were similarly aimed at boosting investments in sustainable energy production.

Ruijs, A. and H. R. Vollebergh (2013), "Lessons from 15 Years of Experience with the Dutch Tax Allowance for Energy Investments for Firms", OECD Environment Working Papers, No. 55, OECD Publishing. www.oecd-ilibrary.org/papers

Rethinking public pay

One of the biggest targets for reform in the pursuit of leaner government budgets is public sector pay and performance. Because of the crisis, some countries have frozen or even reduced salaries, while others have preferred to reduce benefits, even pensions. Others have decided to do nothing for the moment.

Public Sector Compensation in Times of Austerity takes a look at current trends in the compensation of public sector employees and offers new evidence-based thinking for addressing the issues.

Well in advance of the crisis, governments were on the lookout for ways to reduce public sector budgets and improve pay and management practices. Beginning in the early 1990s, an era of new public management brought private sector practices into public sector compensation policies. Since then, compensation management has been decentralised in some governments; the use of individualised pay, as opposed to standardised salaries, has risen; performance-related pay has become more commonplace; and executive pay schemes are now being used.

But reforming public sector employment, especially when a major goal is reducing spending, is a politically sensitive undertaking. It also affects governments' most valuable asset and one of the most difficult to replace: its human capital. Little wonder so few countries have made great strides in this area. And the barriers are numerous. Pay is central to the psychological contract that public employers have with each employee. Meanwhile, loss of institutional knowledge, lost productivity while employees acquire new skills and learn new jobs, and management time lost on reorganisation can prove costly. But possibly the largest cost is the falloff in performance among employees who become discouraged in the face of often painful reforms. Twenty years after government salary programmes began to change, no single "best practice" model has stood out to help make pay reform a smoother undertaking.

OECD (2012), *Public Sector Compensation in Times of Austerity*, OECD Publishing

ISBN 9789264177734

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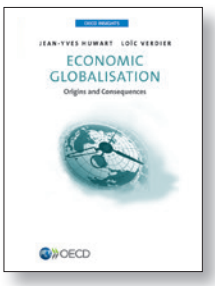

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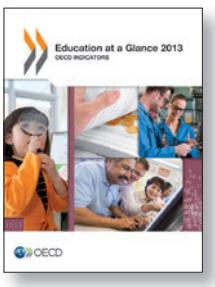

Education at a Glance 2013: OECD Indicators

This book provides the latest available data on the structure, finances, and performance of education systems in more than 40 countries, including OECD members and G20 partners.

ISBN 978-92-64-20104-0, June 2013, 480 pages
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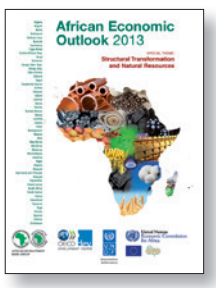

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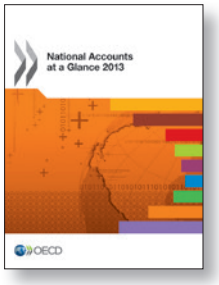

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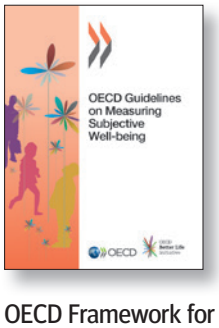

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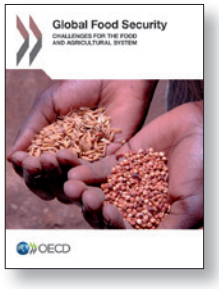

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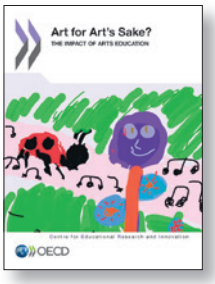

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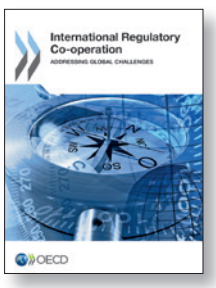

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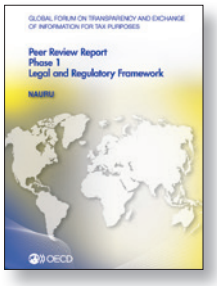

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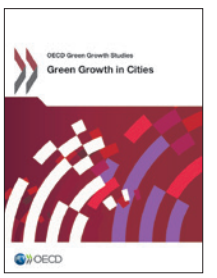

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Fragile aid

Developing countries are a broad group. At the top of the pile are emerging powerhouses such as Brazil and China. At the bottom are a poor group called fragile states, such as Afghanistan and Somalia. Fragile states lack capacity to carry out basic governance functions and are unable to develop constructive relations with society. They are home to half of all children not in primary school and half of all children who die before reaching their fifth birthday. In the next decade, these countries will be the main battlegrounds in the war against global poverty, breeding instability with regional and sometimes global consequences.

Fragile States: Resource Flows and Trends takes stock of the evolution of fragility as a concept, analyses financial flows to and within fragile states between 2000 and 2010, and identifies trends and issues that are likely to influence fragility in the years to come.

By 2015, half of the world's people living on less than $1.25 a day will be in fragile states. Since the 1990s powerful forces have been influencing the causes and manifestations of fragility, including the combination of democratic aspirations, new technologies, demographic shifts and climate change. The last five years have been especially tumultuous, encompassing the 2008 food, fuel and financial crisis and the (still unfolding) Arab Spring.

These events have influenced the international debate on the nature, relevance and implications of fragility. One clear point is that much-needed aid flows are often more volatile for fragile states than non-fragile states. Indeed, every fragile state experienced at least one aid shock–a change of more than 15% of official development assistance per capita–in the past 10 years. Managing aid is another problem. "Donor darlings" such as Kenya and even Afghanistan, which receive aid in abundance from several donors, can run into problems co-ordinating the use of that aid. But countries such as the Republic of Congo and Iraq depend on one donor for over half their aid. Relying on too few countries for aid can leave recipients particularly exposed to policy changes in the donor countries.

OECD (2013), *Fragile States: Resource Flows and Trends*, OECD Publishing

ISBN: 9789264190399

Good returns

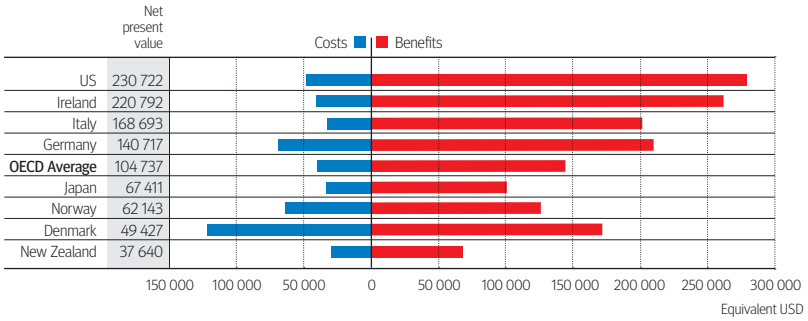
People who have completed tertiary education can generally expect to earn more than those who don't. But governments and societies benefit from these people's investments as well. On average across OECD countries, public investment in an individual's tertiary education is $39,000 higher than that for an individual's upper secondary or post-secondary education. Yet, in most countries, the public returns from tertiary education are substantially higher than those from upper secondary or post-secondary non-tertiary education, thanks to the higher taxes and social contributions that flow from the higher incomes of those with tertiary qualifications. On average across OECD countries, the public net return from an investment in tertiary education is over $100,000 for a man and over $57,000 for a woman. After direct costs, foregone earnings, and public grants, are taken into account, the public benefits from a man in tertiary education are four times higher than the public costs, and from a tertiary-educated woman, more than two times higher.

Overall, differences in returns to both the individual and the public sector depend on how equal wages in that country are. The Nordic countries and New Zealand, for example, have small wage differences and consequently lower public returns to higher education. The former have generally offset these lower returns by providing a higher-education system that is almost free of charge and through a generous student-grant system.

See www.oecd.org/education

Public returns on higher education

Public costs and benefits for a man attaining tertiary education (2009), equivalent US$



Note: Japan refers to 2007. Italy refers to 2008. All other countries refer to 2009.
Countries are ranked in descending order of the public net present value.

Source: *Education at a Glance 2013*

StatLink http://dx.doi.org/10.1787/888932846671

Genetic strains

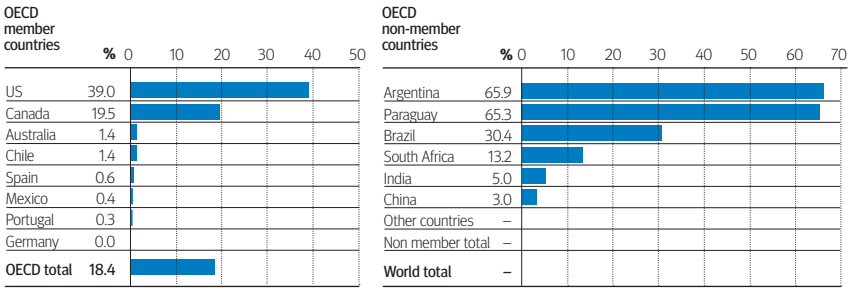
Some 18% of the total OECD arable and permanent cropland area was sown with transgenic crops in the period including 2008 to 2010. The United States dominates OECD commercial production of genetically modified crops, while regulations in European OECD countries and Korea prevent commercial exploitation, with only small areas sown for experimental purposes.

The OECD area of land dedicated to growing transgenic crops has grown rapidly since the mid-1990s, especially in Canada and the US, particularly herbicide tolerant crops that include soybean, maize, canola and cotton. OECD countries account for slightly more than half of the world global planted area of transgenic crops, but countries such as Argentina, Brazil, China and India have expanded use of these crops substantially over the past decade. The development of transgenic crops has led to ongoing discussions and debate on the potential environmental costs and benefits of using these crops, not to mention safety for human health. Some experts believe transgenic crops bring benefits, particularly for development by improving resistance to drought and pests. Concerns have been raised over the risks of genetic mingling of traditional species and wild relatives, such as maize in Mexico. Mexico is recognised as a "Vavilov" centre, which is an area where crops like maize were first domesticated and have evolved healthily over several thousand years.

See www.oecd.org/agriculture

Transgenic cropland

% share in total arable and permanent crops area, average 2008-10*



* Data for 2008-10 average equal to the 2007-09 average for Argentina, Brazil, Canada, China, India, Mexico, Paraguay and South Africa; and the 2006-08 average for Chile.

Source: OECD Compendium of Agri-environmental Indicators 2013

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			% change from: previous period	% change from: previous year			level: current period	level: same period last year
Australia	Gross domestic product	Q1-2013	0.6	2.5	Current balance	Q1-2013	-8.8	-14.8
	Industrial production	Q1-2013	0.3	3.6	Unemployment rate	Q1-2013	5.5	5.2
	Consumer price index	Q1-2013	0.4	2.5	Interest rate	Q2-2013	2.9	3.8
Austria	Gross domestic product	Q1-2013	0.0	0.0	Current balance	Q4-2012	1.6	1.3
	Industrial production	Q1-2013	-1.6	0.1	Unemployment rate	Q1-2013	4.9	4.1
	Consumer price index	Q1-2013	0.1	2.5	Interest rate	Q2-2013	0.2	0.7
Belgium	Gross domestic product	Q1-2013	0.0	-0.6	Current balance	Q1-2013	-1.7	0.1
	Industrial production	Q1-2013	-0.9	-2.7	Unemployment rate	Q1-2013	8.3	7.2
	Consumer price index	Q2-2013	0.3	1.3	Interest rate	Q2-2013	0.2	0.7
Canada	Gross domestic product	Q1-2013	0.6	1.4	Current balance	Q4-2012	-17.4	-12.0
	Industrial production	Q1-2013	1.2	0.6	Unemployment rate	Q2-2013	7.1	7.3
	Consumer price index	Q1-2013	0.4	0.9	Interest rate	Q1-2013	1.2	1.2
Chile	Gross domestic product	Q1-2013	0.5	4.8	Current balance	Q1-2013	-3.0	-1.4
	Industrial production	Q1-2013	-0.4	1.8	Unemployment rate	Q1-2013	6.3	6.7
	Consumer price index	Q1-2013	0.2	1.5	Interest rate	Q1-2013	0.0	5.0
Czech Republic	Gross domestic product	Q1-2013	-1.3	-2.4	Current balance	Q4-2012	-1.7	-1.0
	Industrial production	Q1-2013	1.3	-4.0	Unemployment rate	Q1-2013	7.2	6.8
	Consumer price index	Q1-2013	1.4	1.8	Interest rate	Q2-2013	0.5	1.2
Denmark	Gross domestic product	Q1-2013	0.0	-0.7	Current balance	Q1-2013	3.8	3.6
	Industrial production	Q1-2013	0.5	0.4	Unemployment rate	Q1-2013	7.1	7.5
	Consumer price index	Q1-2013	0.2	1.1	Interest rate	Q2-2013	0.3	0.8
Estonia	Gross domestic product	Q1-2013	-1.0	1.3	Current balance	Q4-2012	0.0	0.1
	Industrial production	Q1-2013	2.4	4.5	Unemployment rate	Q1-2013	9.3	10.6
	Consumer price index	Q2-2013	0.9	3.4	Interest rate	Q2-2013	0.2	0.7
Finland	Gross domestic product	Q1-2013	-0.1	-2.2	Current balance	Q1-2013	-0.5	-1.1
	Industrial production	Q1-2013	-3.1	-3.4	Unemployment rate	Q1-2013	8.2	7.6
	Consumer price index	Q1-2013	0.4	1.7	Interest rate	Q2-2013	0.2	0.7
France	Gross domestic product	Q1-2013	-0.2	-0.4	Current balance	Q1-2013	-16.8	-15.6
	Industrial production	Q1-2013	-0.1	-2.9	Unemployment rate	Q1-2013	10.8	10.0
	Consumer price index	Q1-2013	0.1	1.1	Interest rate	Q2-2013	0.2	0.7
Germany	Gross domestic product	Q1-2013	0.1	-0.3	Current balance	Q1-2013	62.4	59.2
	Industrial production	Q1-2013	0.5	-1.8	Unemployment rate	Q1-2013	5.4	5.5
	Consumer price index	Q1-2013	0.3	1.5	Interest rate	Q2-2013	0.2	0.7
Greece	Gross domestic product	Q1-2011	0.2	-5.5	Current balance	Q1-2013	-2.2	-5.3
	Industrial production	Q1-2013	-2.3	-2.4	Unemployment rate	Q1-2013	26.6	21.9
	Consumer price index	Q2-2013	1.4	-0.5	Interest rate	Q2-2013	0.2	0.7
Hungary	Gross domestic product	Q1-2013	0.7	-0.3	Current balance	Q4-2012	0.6	0.2
	Industrial production	Q1-2013	2.3	-0.8	Unemployment rate	Q1-2013	10.9	11.1
	Consumer price index	Q1-2013	0.8	2.9	Interest rate	Q2-2013	4.6	8.2
Iceland	Gross domestic product	Q1-2013	4.6	3.1	Current balance	Q4-2012	-0.1	-0.4
	Industrial production	Q4-2012	1.5	0.5	Unemployment rate	Q1-2013	5.5	6.4
	Consumer price index	Q2-2013	1.0	3.3	Interest rate	Q2-2013	6.2	5.4
Ireland	Gross domestic product	Q1-2013	-0.6	-1.0	Current balance	Q1-2013	3.9	0.8
	Industrial production	Q1-2013	1.8	-0.5	Unemployment rate	Q1-2013	13.7	15.0
	Consumer price index	Q1-2013	0.1	0.9	Interest rate	Q2-2013	0.2	0.7
Israel	Gross domestic product	Q1-2013	0.7	2.7	Current balance	Q1-2013	1.8	-1.3
	Industrial production	Q1-2013	-0.4	4.7	Unemployment rate	Q1-2013	6.6	6.9
	Consumer price index	Q1-2013	-0.1	1.4	Interest rate	Q2-2013	1.5	2.5
Italy	Gross domestic product	Q1-2013	-0.6	-2.4	Current balance	Q4-2012	0.4	-11.3
	Industrial production	Q1-2013	-0.5	-4.4	Unemployment rate	Q1-2013	11.9	10.0
	Consumer price index	Q2-2013	0.2	1.2	Interest rate	Q2-2013	0.2	0.7
Japan	Gross domestic product	Q1-2013	1.0	0.2	Current balance	Q1-2013	7.9	20.6
	Industrial production	Q1-2013	0.5	-6.2	Unemployment rate	Q1-2013	4.2	4.5
	Consumer price index	Q1-2013	-0.1	-0.6	Interest rate	Q1-2013	0.3	0.3
Korea	Gross domestic product	Q1-2013	0.8	1.5	Current balance	Q1-2013	15.3	9.9
	Industrial production	Q1-2013	-1.0	-0.8	Unemployment rate	Q1-2013	3.3	3.4
	Consumer price index	Q1-2013	0.7	1.4	Interest rate	Q2-2013	2.7	3.5
Luxembourg	Gross domestic product	Q1-2013	-1.6	1.0	Current balance	Q1-2013	-0.1	0.3
	Industrial production	Q1-2013	-4.0	-6.2	Unemployment rate	Q1-2013	5.4	4.9
	Consumer price index	Q2-2013	0.7	1.8	Interest rate	Q2-2013	0.2	0.7
Mexico	Gross domestic product	Q1-2013	0.5	2.2	Current balance	Q1-2013	-5.2	-2.2
	Industrial production	Q1-2013	0.2	..	Unemployment rate	Q1-2013	5.0	5.0
	Consumer price index	Q1-2013	1.4	3.7	Interest rate	Q2-2013	4.3	4.8

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Netherlands	Gross domestic product	Q1-2013	-0.4	-1.4	Current balance	Q1-2013	26.6	19.4
	Industrial production	Q1-2013	3.5	2.2	Unemployment rate	Q1-2013	6.2	5.0
	Consumer price index	Q2-2013	0.9	2.7	Interest rate	Q2-2013	0.2	0.7
New Zealand	Gross domestic product	Q1-2013	0.3	2.9	Current balance	Q1-2013	-1.8	-2.2
	Industrial production	Q1-2013	0.4	1.2	Unemployment rate	Q1-2013	6.2	6.7
	Consumer price index	Q1-2013	0.4	0.9	Interest rate	Q2-2013	2.6	2.6
Norway	Gross domestic product	Q1-2013	-0.2	0.0	Current balance	Q1-2013	13.8	22.4
	Industrial production	Q1-2013	-5.9	-9.0	Unemployment rate	Q1-2013	3.6	3.1
	Consumer price index	Q1-2013	0.6	1.2	Interest rate	Q2-2013	1.8	2.3
Poland	Gross domestic product	Q1-2013	0.1	0.5	Current balance	Q1-2013	-4.1	-7.3
	Industrial production	Q1-2013	-0.2	-1.3	Unemployment rate	Q1-2013	10.6	9.9
	Consumer price index	Q1-2013	0.2	1.3	Interest rate	Q2-2013	2.9	5.1
Portugal	Gross domestic product	Q1-2013	-0.4	-4.0	Current balance	Q1-2013	0.0	-2.7
	Industrial production	Q1-2013	2.9	-1.3	Unemployment rate	Q1-2013	17.6	14.8
	Consumer price index	Q1-2013	-0.9	0.2	Interest rate	Q2-2013	0.2	0.7
Slovak Republic	Gross domestic product	Q1-2013	0.2	0.8	Current balance	Q4-2012	1.4	0.3
	Industrial production	Q1-2013	3.6	6.1	Unemployment rate	Q1-2013	14.2	13.7
	Consumer price index	Q1-2013	0.6	2.2	Interest rate	Q2-2013	0.2	0.7
Slovenia	Gross domestic product	Q1-2013	-0.7	-3.3	Current balance	Q1-2013	0.7	1.8
	Industrial production	Q1-2013	1.1	-0.6	Unemployment rate	Q1-2013	10.6	8.1
	Consumer price index	Q1-2013	-0.3	2.3	Interest rate	Q2-2013	0.2	0.7
Spain	Gross domestic product	Q1-2013	-0.5	-2.0	Current balance	Q4-2012	7.4	-10.4
	Industrial production	Q1-2013	-0.3	-4.3	Unemployment rate	Q1-2013	26.5	23.8
	Consumer price index	Q1-2013	-1.0	2.6	Interest rate	Q1-2013	0.2	0.7
Sweden	Gross domestic product	Q1-2013	0.6	1.7	Current balance	Q4-2012	10.3	8.8
	Industrial production	Q1-2013	-1.1	-2.1	Unemployment rate	Q1-2013	8.2	7.8
	Consumer price index	Q1-2013	-0.3	-0.1	Interest rate	Q2-2013	0.9	1.4
Switzerland	Gross domestic product	Q1-2013	0.6	1.4	Current balance	Q1-2013	25.2	21.1
	Industrial production	Q4-2011	1.0	-1.4	Unemployment rate	Q1-2013	4.6	4.3
	Consumer price index	Q1-2013	-0.2	-0.4	Interest rate	Q1-2013	0.0	0.1
Turkey	Gross domestic product	Q1-2013	1.6	3.4	Current balance	Q1-2013	-14.1	-14.5
	Industrial production	Q1-2013	1.8	2.5	Unemployment rate	Q1-2013	8.4	8.1
	Consumer price index	Q2-2013	1.3	7.0	Interest rate		..	..
United Kingdom	Gross domestic product	Q1-2013	0.3	0.3	Current balance	Q1-2013	-22.5	-19.7
	Industrial production	Q1-2013	0.2	-2.3	Unemployment rate	Q1-2013	7.8	8.1
	Consumer price index	Q1-2013	0.4	2.8	Interest rate	Q2-2013	0.5	1.0
United States	Gross domestic product	Q1-2013	0.4	1.6	Current balance	Q1-2013	-106.1	-120.8
	Industrial production	Q1-2013	1.0	2.5	Unemployment rate	Q2-2013	7.6	8.2
	Consumer price index	Q1-2013	0.6	1.7	Interest rate	Q2-2013	0.2	0.3
Euro area	Gross domestic product	Q1-2013	-0.3	-1.1	Current balance	Q4-2012	51.7	17.2
	Industrial production	Q4-2012	0.1	-2.4	Unemployment rate	Q1-2013	12.1	10.9
	Consumer price index	Q4-2012	..	1.9	Interest rate	Q2-2013	0.2	0.7
Non-members								
[2]Brazil	Gross domestic product	Q1-2013	0.6	1.8	Current balance	Q3-2012	-10.5	-12.2
	Industrial production	Q1-2013	0.9	1.1	Unemployment rate		..	..
	Consumer price index	Q2-2013	1.4	6.6	Interest rate		..	..
[2]China	Gross domestic product		..	..	Current balance	Q4-2012	26.4	27.5
	Industrial production		..	..	Unemployment rate		..	..
	Consumer price index	Q1-2013	2.0	2.4	Interest rate	Q1-2013	3.7	5.6
[2]India	Gross domestic product	Q1-2013	0.5	2.8	Current balance		..	..
	Industrial production	Q1-2013	1.9	3.3	Unemployment rate		..	..
	Consumer price index	Q1-2013	2.1	11.7	Interest rate		..	..
[2]Indonesia	Gross domestic production	Q1-2013	1.4	6.0	Current balance	Q1-2013	-6.3	-4.1
	Industrial production		..	..	Unemployment rate		..	..
	Consumer price index	Q2-2013	0.9	5.6	Interest rate	Q1-2013	5.8	6.5
[1]Russian Federation	Gross domestic production	Q1-2013	-0.1	1.8	Current balance	Q2-2012	22.7	23.4
	Industrial production	Q1-2013	-0.4	-0.1	Unemployment rate			
	Consumer price index	Q1-2013	2.0	7.1	Interest rate	Q1-2013	7.5	7.3
[2]South Africa	Gross domestic production	Q1-2013	0.2	1.9	Current balance		..	..
	Industrial production		..	..	Unemployment rate		..	..
	Consumer price index	Q1-2013	1.6	5.8	Interest rate	Q2-2013	5.1	5.6

Gross Domestic Product: Volume series; seasonally adjusted. **Leading Indicators:** A composite indicator based on other indicators of economic activity, which signals cyclical movements in industrial production from six to nine months in advance. **Consumer Price Index:** Measures changes in average retail prices of a fixed basket of goods and services. **Current Balance:** Billion US$; seasonally adjusted. **Unemployment Rate:** % of civilian labour force, standardised unemployment rate; national definitions for Iceland, Mexico and Turkey; seasonally adjusted apart from Turkey. **Interest Rate:** Three months.

..=not available
[1]Accession candidate to OECD
[2]Enhanced engagement programme
Source: *Main Economic Indicators*, July 2013.

Containing costly job losses

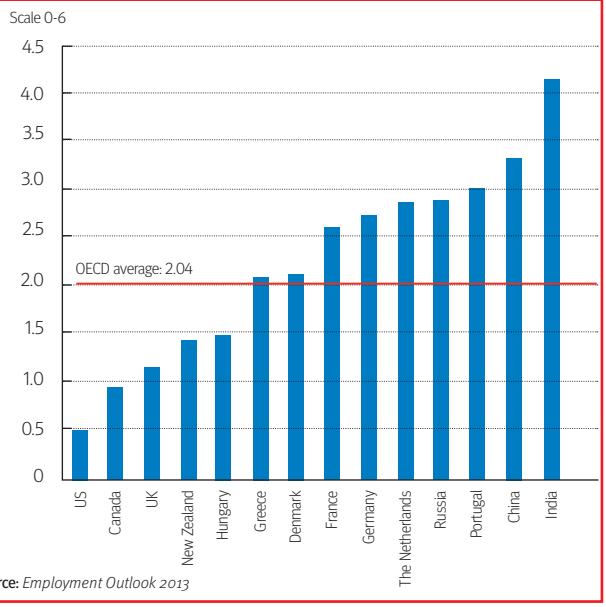
Job losses can prove costly for individuals, as well as to society. Financial distress, for example, can lead to health problems and crime. While policies like unemployment benefits, job-search assistance and skills training can help ease the personal impact of job loss, they can be expensive. Consequently, governments also turn to policies that protect employees from losing their jobs in the first place.

Employment protection legislation therefore aims to reduce the negative effects of job loss on workers and society at large by protecting employment and increasing job stability. But sometimes it can be excessively rigid, discouraging job creation and preventing an efficient allocation of labour. Striking a good balance between flexible labour markets and protecting employees is therefore the trick.

The OECD produces an indicator of the strictness of employment protection of workers with regular contracts against individual dismissal. This takes into account the procedural inconveniences imposed by the legislation, required notice periods and severance pay, as well as difficulty of dismissal. The US and other English-speaking common-law countries such as Canada, New Zealand and the UK appear to have unrestrictive regulations for individual dismissals, as does Hungary. By contrast, France, Germany, the Netherlands and Portugal have regulations for individual dismissals that are far stricter than in the average country, as do China, India, and the Russian Federation.

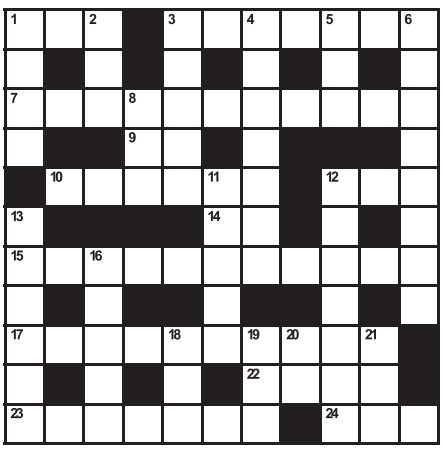
Worker protection

Protection of permanent workers against individual dismissal



Source: *Employment Outlook 2013*

OECD Observer Crossword No 2, 2013



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Across

1 UN group seeking promotion of social justice, abbr.
3 Government or institution's funds or financial reserves
7 Key field in solving global food production problems
9 Vote against
10 Most densely populated country in the world
12 Tax pro, in the US
14 Gold symbol
15 Initiative to improve developing countries' connections to global value chains
17 It has experienced losses since the global recession
22 On the sheltered side
23 From an undeveloped region of Africa with large economic potential
24 Regulation

Down

1 Hassan Rouhani is its new president
2 Row boat propeller
3 Main export of the Cote d'Ivoire
4 Chernobyl concern
5 University address, abbr.
6 Changed rapidly from one position to another
8 Bed-and-breakfast
11 Continue with financial assistance
12 It may be diplomatic or aquatic
13 Tools of justice
16 Profundity
18 Prayer start word
19 Earth inhabitant
20 __ Prado
21 Sri Lanka is a big exporter of it

For Crossword solutions, see www.oecdobserver.org/crossword


ISO9001, ISO14001
and OHSAS18001 certified
But what really matters
to us is H_2O and O_2
LUKOIL