



OECD ANNUAL REPORT 2006



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT



Annual Report : 2006

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Preface

www.oecd.org/secretarygeneral

This *Annual Report* is particularly significant for me as it marks my tenth year as Secretary-General of the Organisation for Economic Co-operation and Development, and also my last.

The world has transformed during my tenure as Secretary-General, and the OECD has changed with it, responding to the changing needs of its member governments as well as to the new demands of globalisation. We now work with more than 70 non-member economies worldwide on issues ranging from economic growth and investment to agriculture and development.

The OECD has added several new areas of work to its repertoire during the past decade, notably the effect on economies and societies of the Internet revolution, but also health and sustainable development. Education has also been given a more prominent role with the creation of a separate directorate. And statistics, the raw material for all our analytical work and for that of others around the globe, has been strengthened and expanded with its own high-level committee.

Work with non-member economies has expanded enormously, and one might be forgiven for thinking that 2005 was the Year of China, as the OECD produced its first *Economic Survey* of that country, but also surveys of its governance systems, agricultural policy and public expenditure, with an environmental survey, regulatory reform review and an innovation review to come this year.

There has been a sea change in our work with non-members, whether in Africa, South-East Europe, Asia or Latin America – we have moved from sharing expertise to developing partnerships for progress which are truly beneficial for all parties.

But events during the past year have served as a stark reminder that however well governments co-operate, and however well we manage our economies, we cannot eliminate the risks of natural or man-made disasters, be it an earthquake in Pakistan, hurricane Katrina in the United States, or terrorist attacks in London.

The OECD cannot eliminate such risks. But it can help governments assess how well-prepared our economies and financial systems are to respond to such shocks, and help them minimise their likely human and economic cost.

For almost half a century, the OECD has proved a flexible tool for governments, helping them to cope with new challenges as well as ongoing issues. I am confident that it will continue to respond to the challenge under my successor, Angel Gurría of Mexico, and I wish him well in his new job. ■



OECD Secretary-General
Donald J. Johnston.

A handwritten signature in black ink, which appears to read 'Donald J. Johnston'. The signature is stylized and cursive, written over a light blue background that features a faint map of the world.

About the OECD

www.oecd.org/about
webmaster@oecd.org

OECD share of world GNI (PPP): 58%
OECD share of world trade: 75%
OECD share of world population: 18%
OECD GDP growth in 2005: 2.6%
OECD share of world official development assistance: 96%
OECD contribution to world CO₂ emissions: 51%
OECD share of world energy production: 36%
OECD share of world energy consumption: 50%



The OECD is a unique forum where the governments of 30 market democracies work together to address the economic, social and governance challenges of globalisation. The OECD also shares its expertise and exchanges views with more than 70 other countries, as well as representatives of civil society.

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

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

Helping ensure development beyond the OECD's membership has been part of the Organisation's mission from the start, and this has become increasingly important in today's interdependent globalised economy. The OECD's work with other countries covers topics of mutual concern from economic and financial stability to ensuring accountability of governments to their citizens.

The Organisation is one of the world's largest and most reliable sources of comparable statistical, economic and social data. OECD databases span areas as diverse as national accounts, economic indicators, trade, employment, migration, education, energy, and health.

The OECD uses this wealth of information to help governments foster prosperity and fight poverty by achieving economic growth and financial stability. It plays a prominent role in fostering good governance in the public service and in corporate activity.

It provides analysis and advice on trade and investment, technology, innovation, entrepreneurship and development co-operation. It is helping to ensure that the environmental implications of economic and social development are taken into account. Sharing the benefits of growth is also crucial, as shown in activities involving emerging economies, as well as in work on sustainable development and aid policy.

The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and co-ordinate domestic and international policies.

It is a forum where peer pressure can act as a powerful incentive to improve policy, and which produces internationally-agreed instruments, decisions and recommendations in areas where multilateral agreement is necessary for individual countries to make progress in a globalised economy. Non-members are invited to subscribe to these agreements and treaties. ■

Site project

www.oecd.org/about

The renovation of the OECD's Paris headquarters moved ahead on schedule and on budget in 2005, culminating with the completion of the renovation of the Château at the La Muette site in December. Central information and communication technology (ICT) systems were successfully transferred during the year-end break.

Contracting for construction of the new conference centre was completed in April 2005 and work is advancing on schedule with a view to opening in the first half of 2007. Tenders were also launched in 2005 for the final stage of the project, refurbishment of the main office building, with dismantling and asbestos removal work scheduled to begin in 2006.

The 450 staff and services remaining at La Muette were moved out of the main office building into refurbished offices on the headquarters site in 2006 to allow the main office renovation to go ahead. The entire project is due to be completed by end-2008, when the 1,000 staff currently using temporary offices in the French capital's La Défense area will return.

In-house staff members have made significant technical contributions to the site project, ensuring quality control and making certain that the special needs of the Organisation are taken into account. Various calls for tender are now underway to equip and prepare the renovated site (e.g. furniture, movers, maintenance, sound and video systems, security equipment), and to ensure that everything is operating smoothly when the new conference centre is opened and staff occupy the renovated offices. ■



OECD Secretary-General Donald J. Johnston officially inaugurates work on the new conference centre and a preview (*below*) of how it will look when finished.



Budget and finances

www.oecd.org/about/finstatements

financeservice@oecd.org

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

The size of the OECD budget as well as its programme of work is determined on a two-yearly basis by member countries, represented in the OECD's governing Council. The Organisation's planning, budgeting and management are all organised on a results-based system. The budget for 2005 totalled 330 million euros, and the budget for 2006 is 336 million euros.

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

Scale of contributions, 2006

Member	% contribution	Member	% contribution
Australia	1.947	Luxembourg	0.216
Austria	1.148	Mexico	2.241
Belgium	1.396	Netherlands	2.074
Canada	3.200	New Zealand	0.422
Czech Republic	0.455	Norway	1.049
Denmark	0.950	Poland	0.855
Finland	0.771	Portugal	0.701
France	6.716	Slovak Republic	0.243
Germany	9.383	Spain	3.306
Greece	0.784	Sweden	1.302
Hungary	0.399	Switzerland	1.500
Iceland	0.168	Turkey	0.793
Ireland	0.644	United Kingdom	7.206
Italy	5.412	United States	24.975
Japan	17.467		
Korea	2.277	Total	100.000

Selected events

(Left to right)
 Swedish Prime Minister
 Göran Persson;
 OECD Secretary-General
 Donald J. Johnston;
 and Japanese Minister
 of Economy, Trade and
 Industry, Shoichi Nakagawa
 at the OECD ministerial
 meeting on 3-4 May 2005.



OECD Council at Ministerial Level



(Left to right)
 OECD Secretary-General
 Donald J. Johnston
 and Russian Federation
 Prime Minister Mikhail Fradkov
 at a press conference
 in Moscow on 20 June 2005.

Visit by Russian Prime Minister

(Left to right)
 Korean Minister of Health and Welfare
 Geun-Tae Kim with
 OECD Deputy Secretary-General
 Berglind Ásgeirsdóttir at the opening
 ceremony of the OECD Centre on
 Health and Social Policy in Korea on
 9 September 2005.



OECD Centre on Health and Social Policy

OECD Council at Ministerial Level

(Left to right)

European Trade Commissioner,
Peter Mandelson, and US Trade
Representative, Rob Portman,
at the OECD annual ministerial
meeting in May 2005.



OECD Forum 2005



The Health and
Development panel
at the OECD Forum
on 2-3 May 2005.

Visit by WTO Director-General

(Left to right)

Director-General of the
World Trade Organization
Pascal Lamy with
OECD Secretary-General
Donald J. Johnston
during a visit to the OECD
on 4 November 2005.



— Key moments

A key moment of 2005 was the selection of a new Secretary-General to succeed Canadian Donald J. Johnston, who is retiring at the end of May 2006 after 10 years in the post.

OECD members selected Angel Gurría, a former finance minister and foreign minister of Mexico, to take up the reins.

Mr. Johnston (*right*) is seen here welcoming Mr. Gurría on a visit to the OECD headquarters in Paris after his nomination.





China was high on the OECD agenda in 2005 (see box page 78), with the release of the first *OECD Economic Survey of China*, as well as reviews of that country's governance system and agriculture sector.

OECD Secretary-General Donald J. Johnston is seen here meeting with Chinese Prime Minister Jiabao Wen during a visit to China in March 2005 to present the OECD's work. ■

KEY ACTIVITIES



Economic growth and stability

Economic growth

www.oecd.org/economics
webmaster@oecd.org

Economic growth is high on OECD governments' agendas because it is necessary to improve living conditions and enable them to achieve other important goals, such as social equity and a clean environment.

The OECD helps make growth policies work, through monitoring economic developments in member countries and selected economies outside the OECD area, and by making policy recommendations.

The OECD brings together the expert knowledge of governments in areas such as taxes, finance, education, science, technology, regulation and employment. It looks at how macroeconomic policies can help keep national economies on the right track, and at the short and long-term effects of developments such as the continued rise in oil prices in 2005.

Work during the year also focused on quantifying the benefits of structural reform packages, as well as on how financial markets and innovation contribute to growth.

DID YOU KNOW...
that even in real terms, oil prices scaled new historical peaks in 2005?



(Left to right)
Mexican Secretary of the Economy, Fernando Canales, and Austrian Federal Minister of Economic Affairs and Labour, Martin Bartenstein at the OECD annual ministerial meeting in May 2005.

Coping with higher energy prices

www.oecd.org/growth

webmaster@oecd.org

Oil and other energy prices continued to rise rapidly in 2005, for the second year in a row. The adverse impact on real incomes and activity in the OECD economies was offset to some extent by the respending of the extra oil revenues by producing countries, supportive financial conditions, and in a number of countries by still-buoyant housing markets. Vigorous growth in China and other emerging Asian economies also pulled OECD exports.

The rise in energy prices translated into higher headline inflation. However, the spillover into core inflation has been limited so far, thanks in part to the credibility of monetary policy, but also to persistent economic slack in some countries and heightened competition from non-OECD economies. Hence, there remained room for monetary policy to support demand where needed.

Looking ahead, the global expansion is expected to gather strength, as the impact of the energy price shock wears off. Investment would play an important role, supported by healthier corporate balance sheets. Unemployment, however, would remain high in some OECD countries, particularly in the euro area at large, where activity would only gradually catch up with potential.

Several risks surround this outlook. One is a renewed rise in energy prices. Another pertains to bond markets. Long-term interest rates have been unusually low for a long time. Should they rise more sharply than projected, this could have severe repercussions, especially via housing markets.



(Left to right)

Greek Minister of Economy and Finance, George Alogoskoufis and French Minister-Delegate for Industry, Patrick Devedjian at the OECD annual ministerial meeting in May 2005.

Quantifying the benefits of structural reform

www.oecd.org/eco/structural_issues

webmaster@oecd.org

Making product markets function better could play a key role in raising living standards in the OECD area. The OECD in 2005 tried to quantify the potential long-run trade and output gains associated with a comprehensive package of structural reforms in all member countries that would enhance product market competition, reduce broad tariff barriers and ease restrictions on foreign direct investment.

The results suggest that levels of gross domestic product (GDP) per capita could increase permanently by as much as 2% to 5%. Concretely, this translates into adding the equivalent of one to two full years to an individual's lifetime earnings.

DID YOU KNOW...

that product market reform could lift OECD-wide living standards by as much as 5%?

Innovation, financial markets and growth

www.oecd.org/eco/money_finance

www.oecd.org/sti/innovation

webmaster@oecd.org

The OECD also focused in 2005 on how financial markets and innovation contribute to growth, as part of its multilateral structural surveillance. New sets of indicators were developed to benchmark countries' performance and policies in these areas with a view to deriving specific policy recommendations. Country-specific economic surveys have explored these dimensions in greater depth, alongside other structural determinants of growth such as competition policy or labour and product market regulations.

Managing risk

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A series of dramatic events in 2005 – hurricane Katrina, the Kashmir earthquake, the London bombings, widespread flooding in Europe, not to mention fears of avian flu – provided a stark reminder of the natural and man-made risks that face the world.

We may not know exactly what new dangers will arise in coming years, but we can already point to some potential causes for concern.

Climate change is likely to cause increasing problems for some regions over the coming decades. There are greater concentrations of people, assets and economic activity than ever before, while more goods, services, people, capital and information are moving by air, sea, road or electronic networks. This may be good news for growth and development, but it also raises the spectre of new, as yet unknown, hazards.

The OECD is helping governments to identify the challenges of managing risk in the 21st century and to determine how best to meet those challenges. From 2004 to early 2006, it published a series of studies in risk management concerning natural and man-made hazards in Denmark, France, Italy, Japan, Norway, Sweden and the United States, and started reviews of risk management policies in OECD countries by a review of information security policy in Norway.

Competition and growth

www.oecd.org/competition
dafcomp.contact@oecd.org

The consumer benefits of more competitive markets, such as lower prices and greater choices, are well known, but OECD work in 2005 showed that competition also has positive effects on the economy as a whole, increasing growth, innovation, productivity and employment.

OECD *Economic Surveys* of individual country economies have linked pro-competition policies to stronger growth, higher employment and other improvements in overall economic performance.

Growth in services

www.oecd.org/sti/service-sector
dirk.pilat@oecd.org

The services sector accounts for more than 70% of employment in OECD countries and its share is still expanding. But productivity growth in services has been slow and the share of the working-age population employed in services remains low in some countries. So it is no surprise that policies to enhance services sector performance are attracting increased attention.

At their annual meeting in May 2005, OECD ministers concluded that the services sector has a large untapped potential to increase employment, productivity and innovation. A follow-up study on globalisation and structural adjustment will further examine the services sector and enable OECD economies to share experiences and best practices.

OECD work shows that addressing these challenges requires a combination of policies. Opening domestic and international services markets is key, as it creates fresh opportunities to develop new services, meet emerging demands and increase employment. The benefits of international trade and investment in services are particularly important. Unilateral steps, such as reducing barriers to foreign direct investment, and multilateral steps, notably through the Doha negotiations in the World Trade Organization (WTO), are both important to open international services markets.

Effective labour and social policies are essential to help workers adjust to the shift to services. High labour taxes are particularly burdensome, as they affect job prospects for low-skilled workers and slow development of personal services. Education policies are important to help provide qualifications, but will need to be supplemented with actions to foster lifelong learning.

Innovation policies also remain ill-adapted to services. Publicly-funded research and development often do not address the needs of services and the links between services firms and public research institutions are poorly developed. To seize the benefits of ICT in services, effective competition in infrastructure, network services and applications is needed. More can also be done to enhance trust in electronic business.



This study shows how knowledge-intensive services activities (KISAs) contribute to the acquisition and growth capabilities of firms and public sector organisations.

DID YOU KNOW...

that firms in business and financial services are more likely to innovate than manufacturing firms?

Financial markets

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

As financial markets are increasingly global, the need for information exchange and co-operation among regulators and policy makers has become more pressing.

In its short-term monitoring of financial market developments in 2005, the OECD analysed the market behaviour of certain risk management instruments and investment vehicles including hedge funds. It also assessed the transfer of risks between financial institutions and between the financial sector and households.

Insurance and pensions

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Ensuring that people save for an adequate pension, and that they receive a fair return when they retire, is becoming increasingly important in OECD countries because of population ageing. Insurance against other risks such as natural and man-made disasters is also increasingly important.

Co-operation between governments is essential to ensure that insurance and pension markets function smoothly. The OECD made major contributions in 2005 in the areas of insurance company and pension fund governance, and the handling of large-scale catastrophes.

OECD members approved two recommendations which provide a basic blueprint for good governance practices in insurance companies and pension funds. The recommendations identify the key role of accountability and responsibility of the governing body and identify entities with a surveillance or “whistleblowing” role, such as auditors and actuaries.

Also during 2005, the OECD completed new guidelines on pension fund asset management. A newsletter entitled “Pensions Market in Focus” was launched, covering funded pension indicators across the OECD area and selected non-OECD countries.

Large-scale catastrophes impose a heavy human cost, but there is also the economic burden of damage to vital systems and infrastructures. The Asian tsunami disaster made 2004 a record year for human and economic losses resulting from natural disasters, but 2005 also bore a heavy toll of terrorist attacks, major hurricanes and earthquakes.

How can we ensure that insurance systems are adequate to deal with such risks? In 2005, the OECD published *Catastrophic Risk and Insurance* and *Terrorism Risk Insurance in OECD Countries*, providing a comprehensive review of insurance industry and government initiatives covering terrorism risks and identifying new policy options. The OECD also launched an International Network on the Financial Management of Large-Scale Catastrophes to help governments work together to meet this challenge.



This comparison of key features of pension systems of OECD countries provides coverage of retirement ages, benefit accrual rates, ceilings, and indexation.

DID YOU KNOW...

that there are already more than one million different pension funds in OECD countries, holding more than USD 16 trillion in assets, equivalent to one and a half times the US economy?

Sustainable development

The OECD is helping member countries make their development sustainable by ensuring a better balance between economic, environmental and social goals when developing policy as well as a long-term perspective on the consequences of today's activities.

In 2005, the OECD carried out a range of analysis and discussion on issues related to sustainable development, particularly on enhancing the efficiency and effectiveness of policies in the economic, environmental and social spheres. The Organisation is now developing frameworks and indicators to help governments achieve better synergies among these three pillars of sustainable development in decision-making.

The OECD is providing better understanding of the economic, environmental and social impact of government support, for example, which helps countries carry out subsidy reform. OECD analysis of environmentally-related taxes (see *Environment chapter, page 43*) delves into their social effects – in terms of the burdens on different sectors and groups – as well as their economic impacts, such as on the international competitiveness of industry. Increasing the effectiveness of official development assistance provided by OECD donors depends on full consideration of environmental and social aspects alongside the purely economic inputs to growth. And OECD sectoral studies – of agriculture, energy, fisheries, industry and transport – benefit from an integrated perspective on their economic, environmental and social dimensions.

The OECD is also helping member countries to formulate and implement national strategies for sustainable development through review and discussion of effective practices, including coherent government decision-making processes, participation of stakeholders, and monitoring and evaluation.

Also in 2005, the OECD developed better statistics for tracking sustainable development trends, such as measuring the well-being of societies on the basis of factors other than gross domestic product (GDP). Accounting frameworks for organising and linking economic, environmental and social indicators to each other are being discussed. The challenges in quantifying sustainable development are outlined in an OECD Statistics Brief on "Measuring Sustainable Development", published in 2005.

The **Round Table on Sustainable Development** at the OECD provides an informal alternative to traditional negotiating forums. It provided the secretariat for a ministerial-led High Seas Taskforce that agreed on renewed action to curb illegal, unregulated and unreported fishing. The final report, *Closing the Net*, was published in early 2006. In 2005, a meeting on using transnational sectoral agreements to help reduce greenhouse gas emissions brought together ministers from OECD and developing countries, as well as business leaders and NGOs. In 2006, the Round Table will consider whether current research and development priorities and programmes will be able to bring on-stream the energy technologies of the future.

www.oecd.org/sustainabledevelopment
candice.stevens@oecd.org



(Left to right)
Energy Commissioner, Andris Piebalgs, and Swedish Minister for Sustainable Development, Mona Sahlin, at the OECD annual ministerial meeting in May 2005.

DID YOU KNOW...
that unsustainable subsidies
(in agriculture, energy, transport, etc.)
can cause budget deficits, pollution,
unemployment and trade distortions?

www.oecd.org/sd-roundtable
www.high-seas.org
richard.doornbusch@oecd.org

Studies on issues related to the transfer of financial risks from businesses to households amid corporate pension funding difficulties and on the effect of ageing and pension system reform for financial markets, as well as a study on recent advances in risk management of public debt, were published in *Financial Market Trends*, issued twice yearly.

Global investment in infrastructure

Infrastructure – transport energy, water and telecommunications – is set to remain an important motor of economic stability and growth worldwide in coming years.

However, the future development of the infrastructure sector faces serious economic, financial, regulatory, legal and institutional challenges that require urgent policy attention at national and international levels.

In response to these concerns, the OECD launched a two-year project bringing together experts from the public and private sector to assess the long-term prospects of the infrastructure sector over the next 30 years, and the key factors that are likely to shape its evolution.

It will propose a set of policy recommendations for OECD governments to enhance infrastructures' contribution to economic and social development in the years to come. ■

www.oecd.org/futures
michael.oborne@oecd.org



(Left to right)
President, Korean Institute for Economics and Trade, Young-sun Choe; Permanent Representative of Korea to the OECD, O-kyu Kwon; and Chair, Korean Council, Suk-Nam Moon, at a Korea Council of Economic and Social Research Institutes (KCESRI) and OECD Joint Seminar in February 2005.

Science, technology and innovation

www.oecd.org/science

sti.contact@oecd.org

The OECD assesses how science, technology, innovation and education policies can efficiently contribute to sustainable economic growth and employment creation.

It provides policy advice on coping with the challenges arising from developments in new science-based industries, notably biotechnology.

Key areas of work in 2005 included internationalisation of research and development (R&D), public-private partnerships for innovation and human resource needs in science and technology.

Fostering innovation

www.oecd.org/sti/innovation

dirk.pilat@oecd.org

The OECD enables governments to bridge the gap between scientific research and innovation by comparing countries' performance and policy in sectors such as biotechnology, as well as reviewing science, technology and innovation policies in individual countries.

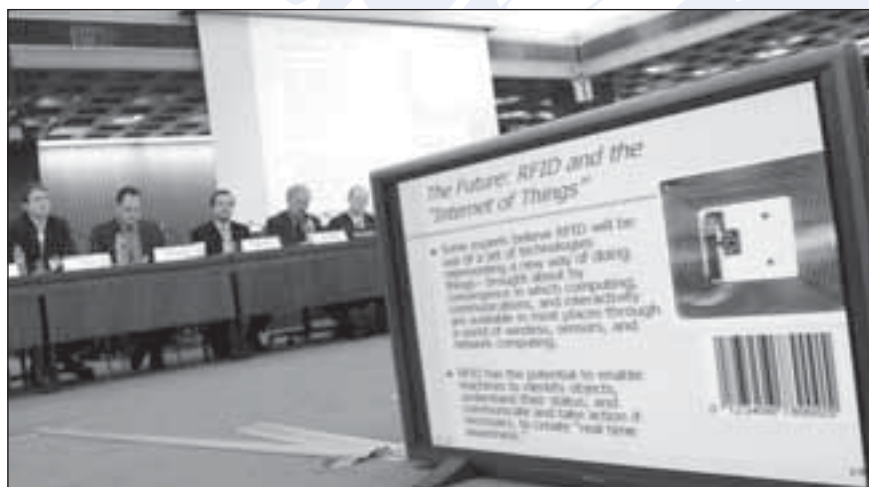
In 2005, the OECD examined the patterns and drivers of changing location of business R&D as well as emerging global networks of science-industry relationships. It also published a report on best practices in public-private partnerships for innovation.

One area of particular concern is the lack of skilled people to fill science and technology jobs. Work in 2005 focused on the international mobility of such people, as well as women in scientific careers and how to make scientific studies more attractive.

The OECD also suggested ways to improve the evaluation of publicly-funded research institutions, as well as some of the framework conditions needed to encourage innovation, especially regarding intellectual property rights. It launched country reviews of national innovation systems and policies for the OECD area and other countries, including China.

DID YOU KNOW...

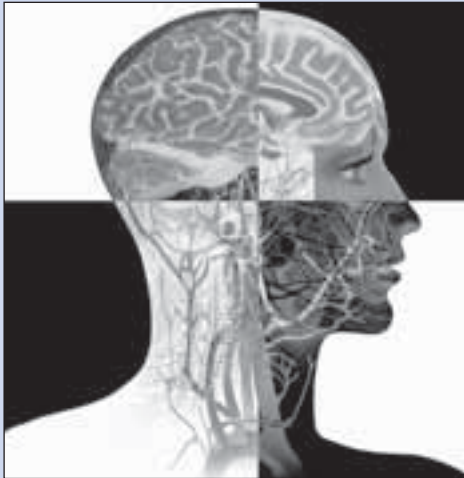
that China now ranks third behind the USA and Japan in R&D spending?



The OECD hosted the Foresight Forum on "Radio-Frequency Identification (RFID): Applications and Public Policy Considerations" in Paris on 5 October 2005.

Brain research

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Improving human well-being and the quality of life is one of the most important and urgent targets of modern science. One way of helping to accomplish this is by understanding the brain, the principal organ that makes us human.

Scientists have already gathered a wealth of information. Neuroscience – the study of the nervous system – has used the most sophisticated technologies to produce ever more complex data, from studies of the human genome to studies of brain imaging of behaviour.

But this information, while detailed, is fragmented, as different scientists focus on individual areas of our extremely complex brain system. The challenge now is to be able to bring all this information together and analyse it to provide an integrated picture of how the brain functions.

That means creating databases of neuroscience data and knowledge, as well as analytical and modelling tools and computer models to analyse the information. This combination of neuroscience and information technology is a whole new scientific field, known as neuroinformatics.

To help achieve progress in this area, in 2005, nine member countries of the OECD's Global Science Forum (GSF) launched the International Neuroinformatics Coordinating Facility (INCF) to promote international collaboration among scientists to improve our understanding of how the human brain works. The INCF will be based at the Karolinska Institute in Stockholm.

The potential payoff from progress in neuroinformatics is considerable. Understanding the nervous system and how it works will make it possible to prevent or alleviate nervous system disorders. Apart from the gain in human terms, there is also an economic gain – nervous system disorders are several times more costly to our health insurance systems than cancer.

DID YOU KNOW...

that a human brain contains about 100 billion nerve cells (neurons), transmitting information to each other through a network of connections 5 million kilometres long?

Harnessing ICT

www.oecd.org/ict
andrew.wyckoff.oecd.org

Information and communication technologies (ICT) are increasingly important to economic and social development, and the OECD provides related data and policy analysis in three biennial publications: the *OECD Communications Outlook*, the *OECD Information Technology Outlook* and the *Science, Technology and Industry Scoreboard*.

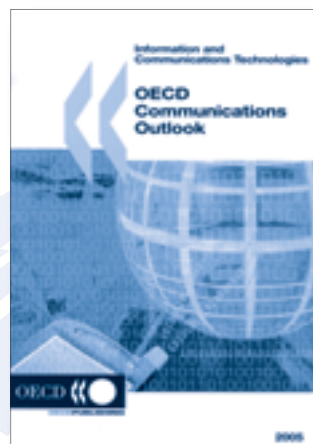
The OECD is also undertaking extensive analysis on the digital economy with a focus on the area of digital content and network convergence (see box page 27).

Other work to be completed in 2006 is examining international sourcing (“offshoring”) made possible by ICT and the impact of new wireless technologies.

Trust in the information society is vital if it is to operate efficiently. The OECD stimulates and shapes international debate on policies for the information society, from helping develop a culture of security to improving cross-border enforcement of privacy and consumer protection.

New priorities for 2006 include work on identity management and the release of an anti-spam “toolkit”.

From 2006 to 2008, the OECD will look at the emerging issues and challenges to be addressed in developing frameworks and international co-operation to secure the future of the Internet.



DID YOU KNOW...
that OECD households doubled their annual spending on communication equipment and services between 1991 and 2003?

Biotechnology

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Biotechnology is an increasingly important driver of sustainable growth and development. The OECD has stepped up work on biotechnology and, in 2006, it adopted a Recommendation on the licensing of patented genetic inventions.

Similar instruments are being developed on the quality assurance of genetic services and on the management and governance of human genetic databases.

These will help define international rules on the use of genetic information in health delivery and will have a significant impact on diagnosis and treatment of many diseases, such as breast cancer.

DID YOU KNOW...
that two-thirds of biotechnology R&D is undertaken for health purposes?

Future studies

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The OECD’s International Futures Programme (IFP) provides early warning of emerging issues, pinpoints major developments and analyses key long-term concerns to help governments map strategy. Activities include a Global Forum on Space Economics, launched early 2006; a planned two-year project on the “Bioeconomy in 2030”; and an ongoing biosecurity project on preventing potential abuse of research and resources in the bio-sciences.

Online music distribution

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Downloading music onto home computers or mobile telephones has become so popular that in 2005, rapidly-growing demand for music from legitimate online music stores nearly offset the decline in sales of discs and other physical formats, with digital sales tripling to 6% of total revenue.

This rise in online music sales has implications not just for artists, consumers and the record industry, but also for providers of the digital services making it possible to download music. There is also the question of the social impact of online content such as games, and regulations for e-business.

All this poses challenges for governments who will have to develop appropriate policies for this new marketplace. The OECD is helping governments meet these challenges, and in 2005 published a report on the digital music industry which noted the positive potential of digital distribution as a new business model and as a new social and cultural phenomenon.

The report found that Internet piracy may be reduced if licensed file-sharing and new forms of distribution evolve. It called for policies which balance the interests of suppliers and users in areas such as protection of intellectual property rights, without disadvantaging innovative e-business models and new technologies. At the same time, it suggested that legal frameworks may need to be adapted to cover online distribution of content.

The digital music report was part of OECD work examining digital broadband content, which has studied a number of other sectors where digital content is transforming value chains and business models, such as scientific publishing, online computer and video games and mobile content. In 2006, the OECD is working on public sector content, film and news distribution and it co-hosted a conference with the Italian government in January on the future digital economy.

DID YOU KNOW...

that around one third of Internet users in OECD countries have downloaded files from peer-to-peer networks and that almost 10 million people were using such networks at any one time?

Global Science Forum

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The Global Science Forum (GSF) brings together science policy officials from OECD countries to identify and maximise opportunities for international co-operation in basic scientific research.

The GSF helped boost brain research in 2005 (see box page 25). It also examined why young people are showing less interest in science studies, hosting a conference on the issue in Amsterdam in November 2005.

In 2006, the GSF began work on enhancing international co-operation in nuclear physics, after completing similar work on high-energy physics in 2005.

This will be a busy year indeed for the GSF, as it will also examine how basic research can contribute to future global energy needs; deliver reports on earthquake science and on the role of science and technology for a safer society; and hold an important workshop in Helsinki in July on the science of science policy.

Improving statistics on science and technology

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Good policy decisions require good data. In 2005, the OECD published a revised version of the Oslo Manual, which gives guidance to innovation surveys. It also released a Framework for Biotechnology Statistics and a Guide to Measuring the Information Society, as an OECD contribution to the 2005 World Summit on the Information Society (see box on ICT for development, page 75).

The Blue Sky II Forum (Ottawa, 25-27 September 2006) will examine new areas for indicator development and set a broad agenda for future work on science, technology and innovation indicators.

Many new indicators were published in the 2005 edition of the *Science, Technology and Industry Scoreboard*, including international mobility of researchers, patenting, the information economy, the role of multinational enterprises, and data on key non-OECD economies, notably China. ■



Industry

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Improving the performance and competitiveness of industry, including services (see box page 20), is of central concern to OECD governments. The OECD helps them formulate micro-level policies to foster the development of industries and enterprises.

It studies entrepreneurship and industrial restructuring and provides analysis of issues relating to large and small firms in manufacturing and service sectors at local, national and international levels.

The OECD collects and analyses industrial statistics and develops indicators to underpin these analyses. It measures industrial productivity and industrial globalisation, and collects and analyses data for sectors such as steel, shipbuilding and tourism.



(Left to right)

Hong Kong (China) Secretary for Commerce, Industry and Technology, John Tsang, and Netherlands Economy Minister, Laurens Jan Brinkhorst, at the OECD ministerial meeting in May 2005.

Industry and growth

www.oecd.org/sti/industry-issues
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The OECD examines the implications for manufacturing of new global business models of multinational enterprises (MNEs), as well as the changing relationship between services and manufacturing, and the effects of outsourcing on employment and productivity.

The OECD produced *Economic Globalisation Indicators* in 2005, along with a *Handbook on Economic Globalisation Indicators* defining the concepts used and putting forward guidelines for data collection.



(Left to right)

Swedish Prime Minister, Göran Persson and Australian Minister for Industry, Tourism and Resources, Ian MacFarlane, at the OECD annual ministerial meeting in May 2005.

Intellectual assets

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The OECD is also leading efforts to understand better the contribution of intellectual assets (such as research and development, intellectual property, human capital, software and new organisational capabilities) to value creation.

A conference on “Intellectual Assets and Innovation: Value Creation in the Knowledge Economy” held in Ferrara (Italy) in October 2005 helped advance a shared understanding of issues and policy options among experts, business practitioners and policy makers regarding best practices; and how firms, research organisations, public sector bodies and entire countries can harness intellectual assets for economic performance. A report on this topic and its policy implications is being prepared for the 2006 OECD annual ministerial meeting.

DID YOU KNOW...

that the US productivity increase in the second half of the 1990s was almost exclusively due to the activities of multinational enterprises?

Combating counterfeiting and piracy

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Counterfeit and pirated products impose an obvious economic cost on the legitimate producers of the illicit copies. But counterfeit medicines, electrical equipment or automobile parts can also pose threats to the health, safety and security of consumers.

In response to rising concern over this issue from government and the business community, the OECD in 2005 began a three-year project to assess the economic and other effects of counterfeiting and piracy. Its main focus is to improve factual understanding of the effects that counterfeiting and piracy has on governments, business and consumers in OECD countries and beyond.

The project will review trends and developments and assess what is being done to combat the illicit practices as described and defined in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

The first phase is focusing on counterfeit and pirated products that infringe trademarks or copyrights, as well as infringements of patents and design rights. The project will include a series of regional workshops to address issues and raise public awareness, and a global policy conference. A final report on this phase will be completed by the end of 2006.

The second phase of the project will focus on piracy of digital content, while the third will address all remaining infringements, notably those related to products that have “geographical” names, such as “Roquefort” cheese (a French product) or “Idaho” potatoes (a US product). Work on these phases will begin in 2006.

Shipbuilding and steel

The shipbuilding and steel industries have for decades benefited significantly from government subsidies and other support. The OECD has been working with relevant parties worldwide that account for more than 95% of world production to try to limit support to both industries.

By late 2005, participants in negotiations on **shipbuilding** had developed an advanced negotiating draft containing provisions that would discipline subsidies and other support measures over and above existing World Trade Organization measures.

However, participants agreed in September 2005 to pause the negotiations in order to allow the parties to reflect on their positions, to talk to each other and to observe developments in the market. The negotiations could then be resumed when the environment for success had improved.

A conference was held on the outlook for **steel** in early 2005, after participants in discussions on limiting subsidies agreed that it would be useful to pause the negotiations to provide participants with opportunities to explore the scope for narrowing differences.

During the conference, participants agreed that the dialogue on steel issues had been valuable and should continue, focusing on industry and market developments and key policy issues. A second government/industry conference will be held in 2006.

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www.oecd.org/sti/steel
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This annual publication provides statistics for steel production, consumption and trade data, as well as indicators of activity.

Role of women entrepreneurs

Women entrepreneurs can be a powerful force for prosperity and economic diversification in the Middle East and North Africa Region, but governments need to actively support them in setting up and running businesses if this potential is to be realised.

That was the key message from an OECD workshop on women's entrepreneurship organised in Istanbul in July 2005 as part of the OECD-Middle East and North Africa (MENA) joint initiative on investment and governance.

Participants in the workshop, the first step in an awareness-building campaign on the potential economic contribution of women entrepreneurs in the MENA region, called for measures to help remove barriers to gender equality in the public and private spheres which hinder women's access to education, employment and mobility, as well as barriers to financing for women entrepreneurs. They also urged governments to devote resources to promoting and encouraging women's entrepreneurship, for example through publicity campaigns.

As a result of the workshop, an informal taskforce was created to identify activities in the short-term to foster women's entrepreneurship, bringing together key stakeholders and experts from MENA and the OECD.

www.oecd.org/cfe/sme
marie-florence.estimate@oecd.org



Turkish Minister of State for Women's Affairs, Nimet Çubukçu, who gave the opening address at the MENA women's workshop.

DID YOU KNOW...

that women-owned firms are growing at five times the rate of all businesses in Canada and twice the rate in the US?

Fostering entrepreneurship and SME growth

The OECD helps governments craft policies to foster entrepreneurship, small and medium enterprises (SMEs) and local development. In 2005, it examined how governments, the financial community and SMEs could improve SME and entrepreneurship financing, and the conclusions were presented at a global conference in Brazil in March 2006. The OECD published the third edition of the *OECD SME and Entrepreneurship Outlook* in 2005.

Work was started to develop an *Evaluation Handbook on SME & Entrepreneurship Policies and Programmes*, which will be released in 2007, to help public administrators and politicians make SME policies more effective. Substantial progress was also made in 2005 on analysing the role of SMEs in global value chains in the automotive, scientific and precision instruments, software, tourism and entertainment industries.

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DID YOU KNOW...

that micro-enterprises (fewer than 10 employees) represent more than 90% of all businesses in certain activities, such as computer services, in many OECD countries?

Local development

The Co-Operative Action Programme on Local Economic and Employment Development (LEED) identifies and disseminates innovations to foster skills, entrepreneurship, job creation, partnerships, local governance, social inclusion and a culture of evaluation. During 2005, the OECD released reports on skills upgrading for the low-qualified, on business clusters, on local governance as a driver of growth and on the role of culture in creating sustainable communities. New activities in 2005 helped enhance the links between higher education and entrepreneurship. An international comparative study was carried out on migrant integration at local level, and a new project on integrating employment, skills and economic development in 10 countries is being launched in 2006. The first reviews of local development agencies will be carried out and a new international comparative study will be launched on entrepreneurship and local innovation systems.

www.oecd.org/cfe/leed

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This book describes recent trends in OECD economies and beyond.

The OECD LEED Trento Centre completed its pilot phase in 2005 and its mandate was renewed for five years. It will continue to build capacity for local development, mainly in Central and Eastern Europe, through interactive learning sessions for policy makers and practitioners and in-depth analysis of local development trends in the region.

Tourism

Work on tourism policy in 2005 focused on the role of SMEs in the globalising tourism economy. A conference on "Global Tourism Growth: A Challenge for SMEs" held in September 2005 identified new business models in tourism, such as Internet operators and looked at innovation practices.

www.oecd.org/cfe/tourism

tourism.contact@oecd.org

DID YOU KNOW...

that tourism is a key export service industry in all industrialised nations, representing nearly 30% of worldwide service exports?

This work will help make tourism-related industries more competitive and improve productivity. ■

— Employment, social cohesion and environment

Employment and social cohesion

www.oecd.org/employment
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High unemployment, exclusion and poverty tear at the fabric of society and unravel economies. Governments also face the growing challenge of increased pension and healthcare demands of an ageing population.

The OECD helps governments find ways to boost employment and improve social welfare by reforming labour markets, tackling poverty and exclusion, adjusting social systems to ageing societies and ensuring that children get the best possible start in life.

DID YOU KNOW...

that by 2050 there will only be one person working for every person in retirement in many OECD countries, compared with two today?

Employment policies that work

www.oecd.org/els/employmentoutlook
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Employment policies need urgent reform if OECD countries are to meet the challenges of population ageing. More than a third of people of working age do not have a job, and unless this changes, the number of retirees for every person in work will increase dramatically in coming decades.



(Left to right)

Netherlands' Minister of Social Affairs and Employment, Aart Jan de Geus, and Italy's Minister of Labour and Social Policy, Roberto Maroni, at the meeting of OECD social affairs ministers in April 2005.

The *OECD Employment Outlook 2005* shows that what is needed is a comprehensive strategy to raise employment prospects – notably among under-represented groups like the over-50s, women, disadvantaged youth and the low-educated – and provide workers with the right skills.

In particular, job-search assistance and other re-employment services, if well-designed and implemented effectively, can help not just the unemployed but also other inactive individuals to find work.

This should be accompanied, in certain cases, by financial rewards for job seekers who find new employment.

Strengthening skills

Promoting Adult Learning, published in 2005, found that ensuring that workers' skills are updated is of paramount importance not only to sustain employment but also to seize growth opportunities arising from new technology and globalisation.

Only 15% of low-educated workers receive training, compared with over 35% for their high-educated counterparts.

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

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

Active ageing

Faced with population ageing, longer working lives must be encouraged. This was the key issue addressed by OECD employment ministers when they met in Brussels in October 2005.

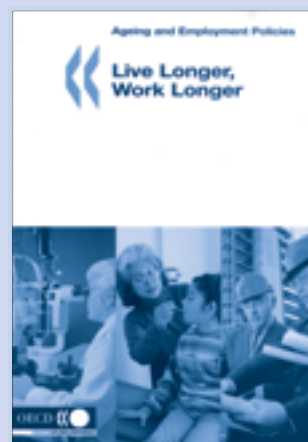
Ministers agreed that without reform of the employment and social policies and practices that deny older workers choice about when and how to retire, population ageing will threaten living standards and put enormous pressure on the financing of social protection systems.

A report on *Ageing and Employment Policies* published after the Brussels meeting stressed that to meet these challenges, work needs to be made a more attractive and rewarding proposition for older workers.

The report makes an important contribution to establishing a new agenda of age-friendly employment policies and practices.

It draws upon the main lessons learned from the reviews of 21 countries already published in the *Ageing and Employment Policies* series and the principal outcomes of the ministerial forum, which concluded the review.

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



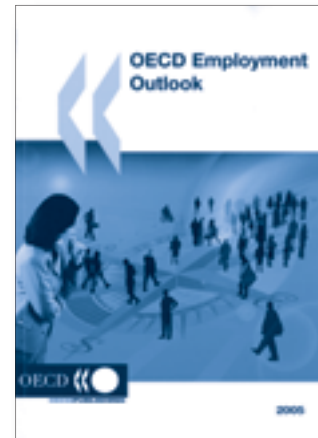
Creating jobs

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

But encouraging more people to participate in the labour market will not help if there are no jobs available for the newcomers.

During 2005, the OECD worked to complete a reassessment of its Jobs Strategy, initially adopted a decade earlier, to help governments meet the challenge of creating jobs in an ageing population.

Among the conclusions so far are that lower labour taxes on low-paid work can support job creation. Simplifying employment regulations, and making them less subject to long and unpredictable court cases, would also encourage employers to create jobs. And increasing job opportunities also requires making product market more competitive.



Migrating for work

www.oecd.org/migration
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OECD countries are showing increasing interest in attracting employment-related migration, partly to help meet the challenge of ageing populations. There is also a major geographical shift in migration flows worldwide, with more migrants coming from Asia, particularly China and the Philippines, as well as from Latin America (particularly to southern Europe), Russia and the Ukraine.

These trends, and the reasons behind them, are tracked in the OECD's annual report, the *International Migration Outlook* (formerly *Trends in International Migration*). But how do governments know whether they are attracting the right number of high and lower skilled workers to meet their economy's needs? And which countries are providing which type of migrant?

Many countries have made it easier for highly skilled workers such as doctors and nurses to enter, or are making determined efforts to attract more foreign students, especially in the fields of science, mathematics and engineering, with the offer of immigration once they complete their studies. At the same time, a number of countries have signed bilateral agreements specifying quotas to regulate the admission of low-skilled workers.

To give a fuller picture of what is going on, the OECD in 2005 compiled a database on foreign-born persons residing in OECD countries according to their level of education and country of birth. It is now possible, for the first time, to obtain a detailed picture and make reliable comparisons of immigrant populations in OECD countries.

In particular, the database provides insights into the controversial issue of the international mobility of the highly skilled and its impact on their country of origin, in other words, the brain-drain debate. The links between migration and development were also discussed at an OECD conference in Marrakech in February 2005.



DID YOU KNOW...

that the immigrant population in OECD countries on average has higher qualifications than the native-born population?

The final results of the reassessment will be presented to the annual OECD ministerial meeting in May 2006 and in the 2006 edition of the *OECD Employment Outlook*.

Benefit systems, income and poverty

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

Much social progress has been made in all OECD countries, but too many people are still exposed to risks of poverty in childhood, of exclusion from work as adults, of isolation and limited self-sufficiency in old age.

Action is needed urgently before population ageing complicates reforms further.

OECD social policy ministers met in Paris in early April 2005 to discuss how social policies can help individuals and families achieve their potential and support economic growth.

They agreed that social and family policies must help give children and young people the best possible start to their lives and help them to develop into adulthood.

They also agreed that providing all parents with better choices about how to balance work and family life extends opportunities, especially for women, and creates economic gains.



Ageing and pensions

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Attaining a better social balance between generations is, and will long remain, one of the most important challenges facing OECD countries. The social and financial sustainability of pension systems needs to be improved. Careful monitoring and appropriate safety nets are essential to prevent older people from falling into poverty in the future.

To help countries address this issue, the OECD in 2005 published the first issue of a new biennial publication, *Pensions at a Glance*, which provides a series of indicators of pension entitlements for the 30 OECD countries.

These social policy challenges must be a shared responsibility between government, employers, workers, and non-government organisations. Individual beneficiaries of social programmes also have responsibilities to contribute to their own development.

DID YOU KNOW...

that public pension levels are just 30% of average earnings in Ireland while they are equivalent to more than 100% in Luxembourg?

Migrating for work

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Increasing the number of migrants into OECD countries may be part of the solution to population ageing. Already immigration is contributing significantly to population growth in OECD countries and immigrants account for an increasing share of the labour force (see box page 35). ■

Education

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Both individuals and countries benefit from education. For individuals, the potential benefits lie in the general quality of life and in the economic returns of sustained, satisfying employment. For countries, the potential benefits lie in economic growth and the development of shared values that underpin social cohesion.

The OECD helps countries achieve high-quality learning for all; one that contributes to personal development, sustainable economic growth and social cohesion.

In 2005, permanent secretaries of OECD education ministries met in Copenhagen to exchange views on the main issues of the next four to five years to come, and to examine the consequences for the OECD work on education.

Improving the learning outcomes of schooling

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Information and communications technologies (ICT) have profound implications for education, both because they can facilitate new forms of learning and because it has become important for young people to master ICT in preparation for adult life. But how extensive is access to ICT in schools and informal settings and how is it used by students?

In January 2006, the OECD used data from its Programme for International Student Assessment (PISA) 2003 to examine whether access to computers for students is equitable across countries and students groups. The study, *Are Students Ready for a Technology-Rich World?: What PISA Studies Tell us* looks at student use and attitudes toward ICT, the relationship between students' access to and use of ICT, their scholastic performance, and the implications for educational policy. It found that students who are established computer users tend to perform better in key school subjects than those with limited experience or a lack of confidence in their ability to perform basic computer functions.



Barbara Ischinger became the OECD's Director for Education on 1 January 2006.

Improving education policies and practices

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Peer reviews provide countries with analysis of problems and recommendations for policy reform. In 2005, two major thematic reviews were published, one on teachers and one on adult learning (see box page 39). Several other reviews are ongoing, notably on school bullying and violence; childhood education and care; school leadership; and school choice and tertiary education.

Assessment is a major issue in educational policy. A recent publication, *Formative Assessment: Improving Learning in Secondary Classrooms*, reported good practices in eight education systems.

Making schools safe and secure

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High-quality education requires high-quality buildings and spaces that facilitate the learning process and encourage social participation, providing healthy, safe, and inspirational settings for their occupants. The OECD Recommendation Concerning Guidelines on Earthquake Safety in Schools (see box below) represents a policy commitment by governments to provide a safe learning environment.

Making schools safer in earthquakes

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Thousands of children were killed in the Kashmir earthquake when their schools collapsed, and many more were injured. Even in less severe tremors, schools, which often serve as emergency shelters, have failed to protect those inside. Often such tragedies occur because available technology is not applied and existing laws and regulations are not enforced. In July 2005, the OECD adopted Guidelines on Earthquake Safety in Schools, which set out the principles and major elements of effective school seismic safety programmes. Implementing the Guidelines could significantly reduce the risk of death and injury to schoolchildren and their teachers. Improvements in the design and construction of new and existing schools can be made quickly and at reasonable cost. The OECD is initiating an activity in which governments from both OECD and non-OECD countries are invited to assist each other in formulating and implementing policies for improved earthquake safety in schools.



Rethinking higher education in a global economy

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In December 2005, OECD countries adopted Guidelines on Quality Provision in Cross-border Higher Education.

Working jointly with the United Nations Education, Science and Cultural Organization (UNESCO), which also adopted the Guidelines, the OECD was able to reach numerous non-member economies who are large recipients of cross-border higher education.

Learning a living

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Learning a Living, the first report from the Adult Literacy and Life Skills Survey, presents new evidence on the nature and size of the literacy gaps (differences in literacy rates among and within OECD countries) and how these gaps have evolved over the past decade.

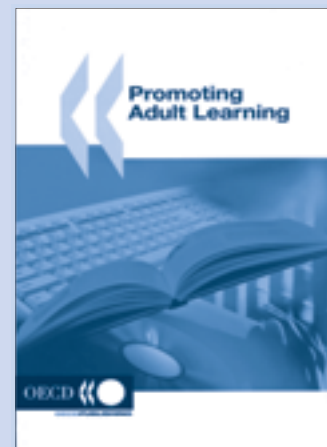
The report offers new insights into the factors that influence the formation and loss of adult skills in various settings – at home and at work – for a selection of countries inside and outside the OECD: Canada, Italy, the Mexican state of Nuevo León, Norway, Switzerland, the United States and Bermuda.

The study offers the first comparative evidence on the impact of formal adult education and informal learning on the supply of skills. It also provides unique insight into the distribution of information and communication technology skills, and how these have amplified both productivity and wage inequality.

Findings point to large differences in the level and distribution of skills both within and between countries. Low skills are evident among all adult groups in significant though varying proportions. The proportion of people with the minimum skills required to understand and use the information contained in a written text varies from over two-thirds in Norway to 20% in Italy and 11% in Nuevo León.

In addition, skills vary substantially even at similar levels of educational attainment. Hence some countries are more successful than others in building skills beyond initial schooling. These differences matter because skills are closely associated with economic life chances and quality of life.

Improving skills, particularly among those who have fallen far behind, remains a considerable challenge. But policy can make a difference. The evidence shows how some countries have succeeded in building high levels of skills in multiple domains. Others have managed to improve the skills of the entire population. Still others have come close to realising lifelong learning for all.



This OECD report brings together key lessons from 17 OECD countries, providing evidence on the strategies in place to improve adults' participation in learning.

The Guidelines are designed to help students gain easy access to reliable information on higher education offered outside their home country or by foreign providers in their home country. They call on governments and other stakeholders to make qualifications more transparent and to provide greater clarity on procedures for their recognition internationally. The Guidelines will be disseminated as widely as possible.

Given the wide range of stakeholders involved, a co-ordination mechanism and reviewing process for implementation of the Guidelines needs to be established.

Education research and innovation

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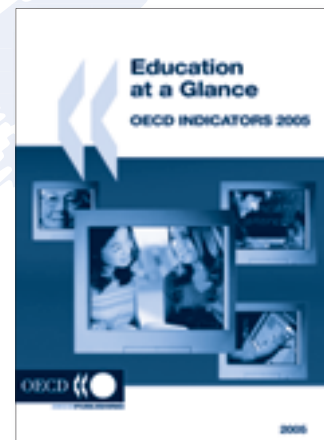
Higher education institutions in OECD countries are looking for ways of integrating new technologies into programme delivery. *E-learning in Tertiary Education: Where do we Stand?* published in 2005, analysed e-learning in 19 tertiary education institutions from 13 countries.

Key factors include the encouragement of good practices to stimulate innovation, appropriate staff development, the need for research and development on technical issues such as learning objects, and issues surrounding intellectual property in e-learning.

Governments should take into account the importance of academic autonomy and adopt a suitable timeframe for development. Patience is a key condition for any capacity-building policy.

The OECD specialises in analysing the links between education and economic growth. Alongside this is a growing interest in the wider benefits of learning, such as the role of education in producing healthy and active citizens.

Work is in progress to measure the social outcomes of learning, concentrating on the links between education and health (mental and physical), and civic and social engagement.



This book enables countries to see themselves in the light of other countries' performance, and provides a rich, comparable and up-to-date array of indicators.

Non-member economies

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The first Global Forum on Education was organised in partnership with the Chilean Ministry of Education on the theme of "Challenges for Education in a Global Economy". The Forum, which took place in October 2005 in Santiago, attracted high-level participation from OECD countries and non-members, leading international organisations and influential non-government organisations (NGOs). It provided an opportunity to strengthen and expand the substantial networks of education officials and experts. A second Forum will be held in Africa within two years. ■

Environment

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A healthy environment is a pre-requisite for a strong and healthy economy, and both are needed for sustainable development. The OECD helps members develop effective and efficient policies to resolve environmental challenges, both nationally and internationally, and to measure their progress in doing so. Global environmental highlights in 2005 included the coming into force of the Kyoto Protocol to the UN Framework Convention on Climate Change, under which most OECD countries committed to individual, legally-binding targets to limit or reduce their greenhouse gas emissions. During the 2005 World Summit at the United Nations, governments discussed progress towards the Millennium Development Goals (MDG), one of which is to “ensure environmental sustainability”.

Many other challenges persist, including ensuring adequate water supplies, limiting the effects of environmental degradation on human health and maintaining environmental standards in a globalising economy.

Environmental performance

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The OECD is examining the efforts of all member countries, and some non-members, to reach their environmental goals while providing recommendations for improving performance (see box page 44).



(Left to right)
 Contributing Editor, *Wired Magazine*, US, Spencer Reiss;
 Senior Economic Advisor to the Minister of Petroleum and Mineral Resources, Saudi Arabia, Mohammad Al Sabban;
 Director-General, Ministry for Environment and Territory, Italy, Corrado Clini; Deputy Head, Economic and Social Affairs Department, Norwegian Confederation of Trade Unions, Eystein Gjelsvik; CEO, Vattenfall AB, Sweden, Lars G. Josefsson,
 at the OECD Forum 2005 panel on Climate Change and Energy.

Climate change

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climate.contact@oecd.org

Global climate change is one of the most complex challenges for governments and societies. Current projects related to climate change at the OECD focus on assessing cost-effective strategies for mitigating and adapting to its effects while better understanding its economic impact.

DID YOU KNOW...
 that the five warmest years on record have all occurred since 1998?

Water supply and sanitation financing

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Environmental concerns and development go hand in hand. Access to clean water, treatment of waste water and effective water management are vital to environmental health, but also to poverty alleviation efforts in developing countries. The Millennium Development Goals (MDG) call for the number of people without access to safe water and basic sanitation to be halved by 2015.

Several areas of OECD work in 2005 focused on environmental and development issues relating to water. In July, special financial terms for renewable energies and water projects were added to the Arrangement on Officially Supported Export Credits (see *Trade chapter*, page 54) for a two-year trial period to help promote the use of renewable energy resources and access to safe drinking water.

In November, environment ministers from the OECD and countries in Eastern Europe, Caucasus and Central Asia (EECCA) met to discuss progress made since adopting guiding principles on reform of the urban water supply and sanitation sector in the EECCA in 2000.

The lessons learned from this programme may be helpful in crafting strategies for financing water systems in developing countries. Some of the lessons learned and tools adopted for water supply and sanitation financing in EECCA are being included in a joint programme of action to help meet the MDGs in developing countries, discussed by a joint meeting of OECD development and environment ministers in April 2006.

Many countries are struggling to satisfy increasing water demand for agricultural production while maintaining ecosystems and ensuring adequate water quality.

A workshop held in Australia in late 2005 reviewed current and future policy options, market and voluntary approaches to address water resource use and water quality issues in agriculture. It highlighted that further efforts are needed in the use of prices and market-based measures, such as tradable rights, to allocate scarce water resources.

The OECD also contributed its experience and policy analysis in water management and financing strategies to the World Water Forum 4 in Mexico in March 2006.



This report explains the environmental challenges that these economies face, and assesses the financial tools and resources available to tackle them.

In 2005, the OECD completed a series of case studies on mainstreaming climate change response strategies into economic development planning and assistance programmes for several developing countries. This work will provide development assistance agencies with guidance on how best to adapt to climate change.

Business and the environment

An important element of effective environmental policies is government's capacity to enforce them and to change the behaviour of firms toward better environmental performance.

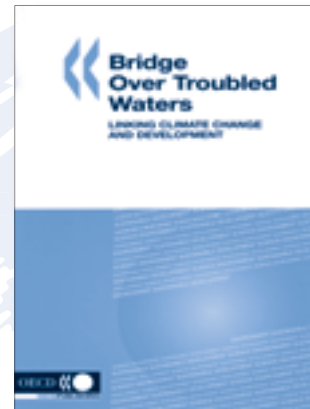
In 2005, the OECD completed a survey of some 4,000 companies in 7 OECD countries which explored firms' response to public environmental policy.

Another project considered how business can further contribute to achieving the goals of Multilateral Environmental Agreements.

Promoting compliance with environmental requirements was an important focus for co-operation with non-members.

The OECD also explored the synergies between investment, development and environment as part of its work on investment for development.

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



Environmentally harmful subsidies

Each year, OECD countries transfer at least USD 400 billion through support schemes to various sectors of the economy, many of them potentially harmful to the environment.

OECD work on environmentally-harmful subsidies in 2005 included developing a checklist to determine when removing subsidies will benefit the environment, and discussing the political economy of subsidy reform.

Other work included analysing the implications of combining environmentally-related taxes with other environmental policy instruments and collecting available evidence on the effectiveness of these taxes.

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

Chemical safety

A cornerstone of the OECD's work on chemical safety is the Mutual Acceptance of Data (MAD) for the assessment of chemical safety. Under MAD, test data generated in one adhering country are accepted in other member countries, saving time and money for governments and the industry by avoiding duplicative testing.

An increasing number of non-OECD countries are adhering to MAD – South Africa, Slovenia and Israel are already full participants and other countries, including India, China, the Russian Federation, Brazil, Chinese Taipei and Malaysia, have expressed interest in the system.

www.oecd.org/ehs
ehscont@oecd.org

DID YOU KNOW...
that about 2,000 new chemicals are notified for marketing every year in OECD countries?

Measuring environmental performance

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



Governments sign up to a whole range of national and international targets for reducing environmental damage, but how do we know whether they are successful in reaching them? *OECD Environmental Performance Reviews* examine countries' efforts to reach their environmental goals while providing recommendations for improving performance.

They do this by using indicators that measure country performance in pollution reduction and natural resource management, including through the development of economically efficient and environmentally effective policies and through international co-operation.

In 2005, the OECD completed environmental performance reviews of France, the Czech Republic and the United States, as well as one for non-member Chile, which was carried out in co-operation with the United Nations Economic Commission for Latin America and the Caribbean (ECLAC).

The OECD also signed a memorandum of understanding with China to undertake the first ever environmental performance review of that country. The final report of this review is scheduled for 2007.

Great strides were made in 2005 in the relatively new area of using computer models rather than toxicological testing to estimate certain safety data. OECD principles for validating such models for regulatory purposes were agreed.

The safety aspects of manufactured nanomaterials are also attracting increased interest. The OECD is addressing possible testing and assessment needs for these materials at an early stage so that potentially useful applications can be considered together with the possible corresponding challenges to human health and the environment.

Environment and agriculture

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Agriculture is a major user of land and water resources and has a significant impact on biodiversity. It generates environmental damage such as water pollution, soil erosion and destruction of wildlife habitats, yet also provides environmental services such as biodiversity, carbon sinks, flood control and landscapes.

A central focus of ongoing work in the OECD is to help governments understand how different policies affect the environment, and the implications of using different policy instruments.

A workshop on “Evaluating Agri-Environmental Policies: Design, Practice and Results” in December 2004 showed how far many countries still need to go in setting clear targets, linking environmental and economic performance, and in mainstreaming evaluations as a tool to design better policies. The proceedings of the workshop were published in 2005.

The fisheries sector poses significant economic, social and environmental challenges for policy makers and the fishing industry. As a renewable natural resource, fish stocks need to be managed in a sustainable and responsible way to ensure a future for the sector. Work is under way on government financial transfers to fisheries, the use of market-based economic instruments in fisheries management and illegal, unreported and unregulated fisheries activities.

Health and environment

www.oecd.org/env/social/envhealth

env.contact@oecd.org

The short- and long-term effects of environmental degradation on health are a top concern for many governments in both OECD and non-OECD countries. The OECD is looking at the policies that can be used to reduce the risks of pollution and exposure to toxic substances on human health (see *Health chapter*, page 49). ■

Health

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

Good health is necessary for individuals to flourish as citizens, family members, workers and consumers. Improving health is a key concern of OECD societies, as it can contribute to higher economic growth and improved welfare. Health and healthcare have improved dramatically over the past few decades, but at a cost, and public budgets are feeling the pinch.

At the same time, opportunities to further improve the performance of health systems are evident. Developed nations are grappling with issues of how to assure affordable systems with sustainable financing, maintain equitable access to services, attain better health outcomes, increase responsiveness to consumer expectations and improve value for money.

Recent OECD work has contributed new information and insights to member countries seeking to improve the performance of health systems and address key policy issues, such as waiting times for elective surgery and the role of private health insurance.

Promoting good health provision

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

Policies that encourage innovation in the health sector and promote more cost-effective healthcare services are crucial for well-run national health systems. Other factors, such as the impact of national pharmaceutical pricing policies on research, prices and access to medicines, can be equally important. The OECD Group on Health was set up in 2005 to look at how



(Left to right)
Finnish Minister of Social Affairs and Health, Liisa Hyssala, and Swedish Minister for Social Affairs, Berit Andnor, at the meeting of OECD social affairs ministers held in April 2005.

policies such as these compare across member countries. The OECD is also considering the economics of increased investment in disease prevention and health promotion, and the ability of national policies to meet workforce health needs, as well as the implications of trends in disability among elderly populations for health and long-term care systems (see box page 48). A biannual newsletter, "Health Update", provides a widely accessible overview of OECD work on health.

The OECD also produces country reports analysing national health systems. New reports on Mexico and Finland were published in 2005. A report on Switzerland is planned for 2006.

DID YOU KNOW...

that Australia, Canada, Sweden and the United States now report less than 20% of adults as daily smokers?

Measuring health and health spending

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

Improving the comparability of health statistics and reducing the reporting burden of member countries, particularly through enhanced co-operation with other international organisations such as the European Commission and the World Health Organization (WHO), has a high priority. The 2005 edition of *OECD Health Data*, the most comprehensive source of comparable OECD statistics on health and health systems, includes more than 1,200 statistical

DID YOU KNOW...

that more than 50% of adults are now defined as either overweight or obese in 10 OECD countries?

Rising drug spending

Spending on pharmaceuticals across OECD countries has increased by an average of 32% in real terms since 1998, reaching more than USD 450 billion in 2003. Indeed, spending on drugs has increased faster than total spending on health over the past five years in most OECD countries.

In 2003, total drug expenditure per person was highest in the United States (more than USD 700), followed by France (just over USD 600). The lowest spending was in Mexico and Turkey (just over USD 100).

Variations between countries reflect price and consumption differences, as well as how fast new, and often more expensive, drugs are introduced. Differences in national income affect spending on pharmaceuticals.

On average, about 60% of drug spending is publicly financed across OECD countries, with the remainder paid mainly by out-of-pocket payments and private health insurance.

The public share of pharmaceutical spending has recently increased in most countries, including in the United States, though at around 20% in 2003, it was still the second lowest public share in the OECD.

DID YOU KNOW...

that health expenditure accounts for an average 9% of GDP in OECD countries, up from just 5% in 1970?

Long-term care for the elderly

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



Demand for long-term care for the elderly will rise steeply over the next three decades as baby-boomers grow old. Governments will need to find suitable responses to this swelling demand, not least improved access to affordable, good quality long-term care. Is helping people stay in their own homes the answer, and does it help contain the public costs of caring for the elderly?

An OECD study published in 2005, *Long-term Care for Older People*, offers some answers based on the latest trends in 19 OECD countries. It studies lessons learned from countries that undertook major reforms over the past decade and analyses trends in expenditure, financing and the number of care recipients. The study pays special attention to programmes that provide consumers with a choice of care options, including cash to family caregivers. Concise country profiles of long-term care systems and an overview on demography and living situations of older persons help the reader understand this complex policy field.

series and indicators, providing evidence of striking variations across OECD countries in many aspects of health systems performance. It is available online and on CD-ROM in a multilingual version (English, French, German, Italian, Russian and Spanish).

The two-yearly companion publication, *Health at a Glance*, presents key indicators from the database and descriptive analysis of trends and cross-country differences, in a user-friendly format. The 2005 edition focused on the resources and activities of healthcare systems and included an increased number of indicators related to health promotion and disease prevention.

Health and environment

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The adverse effects of environmental degradation on human health have become a key policy driver in recent decades. Environmental pressures are growing, especially from polluted air, water and soil, and there are growing concerns about effects on children. Latent effects of environmental pollution threaten the future health of today's young people, increasing the need for stronger policy responses. The OECD is co-ordinating surveys in several member countries to estimate the benefits of policies aimed at reducing immediate and latent risk to adult and child populations. It will collect information specific to children and which could be used in policy making. This work will also make cross-country comparisons feasible.

Given the importance of environmental conditions on health impacts, the potential benefits from a co-ordinated "whole-of-government" approach can be considerable. The OECD is looking at how co-ordination between environmental and health policies can be improved. Theoretical work in this area will be complemented by a review of best practices in the assessment of environment-related health impacts and their incorporation into the policy making process. ■



(Left to right)
 OECD Secretary-General,
 Donald J. Johnston, with
 World Health Organization
 Director-General, Jong-wook Lee,
 during a visit to the OECD
 in March 2005.

International trade and taxation

Trade

www.oecd.org/trade
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Trade and investment liberalisation stimulates economic growth and is a key factor in integrating an expanding number of countries in the world economy. OECD work on trade provides analysis to support continued trade liberalisation and to foster an understanding of trade policy issues.

Its trade policy analysis in 2005 helped support discussions at the sixth World Trade Organization (WTO) ministerial conference in Hong Kong (China) in December, where the world's trade ministers renewed their resolve to bring the Doha Development Agenda (DDA) negotiations to a successful conclusion.

Trade and development

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Promoting development and the interests of poorer members lies at the heart of the DDA, so development issues were a priority for the OECD's work in 2005 in support of the negotiations. This included detailed analysis covering questions such as: What are the welfare benefits from further multilateral liberalisation? What are the implications of trade preference erosion? How will lower tariffs affect government revenues? How significant are the benefits from more open services trade? And how can WTO agreements become more supportive of development?



(Left to right)
Australian Trade Minister, Mark Vaile
and German State Secretary, Federal
Ministry of Economics and Labour,
Bernd Pfaffenbach, at the OECD annual
ministerial meeting in May 2005.

OECD simulations suggest that far-reaching trade liberalisation would bring significant benefits to the world economy, particularly developing countries, but the gains would be unevenly distributed and the changes could cause problems for certain countries or sectors.

Three potentially thorny issues are the effect of reductions in trade preferences; the impact on government revenue of tariff changes; and the impact of liberalising services trade.

Trade preferences

An OECD study on trade preference erosion found that although most developing regions would benefit if major preference-granting countries reduced their tariffs, a few regions, especially in Sub-Saharan Africa, could face comparatively modest net welfare losses due to reduced preference margins.

The best policy response may be to promote an environment where economic actors can capitalise on new opportunities, while facilitating adjustment for sectors on the negative side of the equation and developing an appropriate social safety net.

Some countries, however, face particular economic challenges in view of their geography (e.g. being landlocked or small island economies) or their reliance on a narrow range of exports (such as sugar, bananas or textiles). In such cases, development assistance may play a role in supporting reforms needed to promote growth.

Tariffs and government revenue

Some developing countries that rely on import tariffs for much of their government revenue are particularly concerned about the effect that lower tariffs will have on their public finances. The OECD found that revenue losses from tariff reductions for many countries would be less severe than might be expected.

At the same time, comparatively deep and effective multilateral tariff reductions may also lead to larger trade creation and welfare gains for them. However, some countries would still be at risk of suffering net government revenue losses. Efficient tax policies can compensate for such revenue losses and help solidify the gains from liberalisation and a better allocation of resources.

Trade in services

Services have become the single largest sector in many economies worldwide. They provide the bulk of employment and income in many countries and serve as vital input for producing other goods and services. The current WTO negotiations offer countries a chance to further open services markets, which would benefit both developed and developing countries.

Developing countries generally stand to make significant gains from more open services markets. While industrialised countries still dominate global

DID YOU KNOW...

that remittances from nationals working abroad represented almost 4% of Bangladesh's GDP in 2004-2005?

www.oecd.org/ech/development/preferences

ech.contact@oecd.org



(Left to right)

Korean Trade Minister, Hyun chong Kim; Chinese Ambassador to the WTO, Zhenyu Sun, and Chilean Minister for External Relations, Ignacio Walker, at the OECD annual ministerial meeting in May 2005.

www.oecd.org/ech/tariffs

ech.contact@oecd.org

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Trade and structural adjustment

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tradeandstructuraladjustment
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International competition, accelerating technological change and shifting social concerns are important drivers of structural change. Such change brings undoubted opportunities, but also raises acute challenges for individuals, communities and society.

The OECD study *Trade and Structural Adjustment: Embracing Globalisation*, published in 2005, looks at how to ensure that reallocating labour and capital to more efficient uses does not inflict heavy human and social costs.

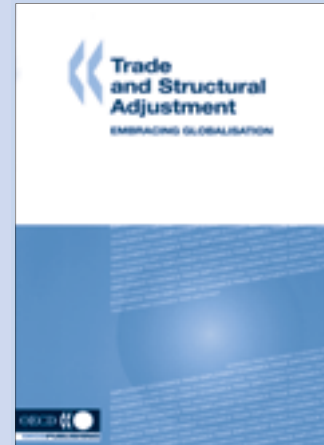
One problem is the difference between the local effects of adjustment and the impact on the economy as a whole. The estimated 55,000 jobs lost quarterly in the United States because of the international sourcing of services may make headlines, but are a very small portion of the more than seven million jobs destroyed every quarter as a result of the normal functioning of the US labour market.

The adjustment challenge is different for developing and industrialised economies. Nevertheless, key elements of the policy framework are broadly applicable across countries. These elements are:

- Macroeconomic policies that promote stability and growth.
- Labour market policies that help develop workers' skills and facilitate labour mobility while providing adequate assistance to those who experience adjustment costs.
- An efficient framework of regulation.
- An institutional and governance framework that favours structural reform, while enhancing social dialogue and public understanding and acceptance of reform measures.
- Liberal trade and investment policies that support structural adjustment by contributing to growth, innovation and competitiveness.

The key to successful structural adjustment lies less in individual policies themselves than in the way policies interact. Governments are encouraged to pursue reforms in a complementary way: to help ensure that those disadvantaged by one reform benefit from another, and to foster synergies between policies.

While appropriate national policies are at the heart of a successful adjustment process, bilateral, regional and especially multilateral co-operation play an important complementary role.



DID YOU KNOW...
that 51 of the world's top 150 construction companies that generate the most revenue outside of their home market were from developing countries, including Brazil, China, Egypt, South Korea and Turkey?

The OECD and the WTO negotiations

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



(Left to right)
 Argentinian Secretary of Trade and International Economic Relations, Alfredo Chiaradia and WTO Director-General, Supachai Panitchpakdi, at the OECD annual ministerial meeting in May 2005.

The OECD is uniquely placed to contribute to the Doha Development Agenda (DDA), the current multilateral trade negotiations taking place under the aegis of the World Trade Organization (WTO).

While it is the Geneva-based WTO that is charged with the negotiations, under which 149 members establish and monitor the rules of trade between nations, the OECD provides a forum for trade negotiators from the OECD and several observer countries to discuss issues of importance to them in an informal, non-negotiating setting. The OECD deliberately positions itself upstream from the WTO, taking innovative approaches and “cracking the hardest nuts” in terms of the issues to be addressed.

And it is the OECD that provides objective, fact-based analysis on key trade policy issues, which along with dialogue with non-OECD economies, helps build support for trade liberalisation and allows countries to take well-informed positions in the negotiations being held in Geneva.

In this way, the OECD makes a significant contribution to the WTO debates. It co-operates closely with the WTO secretariat, briefs WTO members, and takes part in WTO capacity-building events as a key part of this process.



trade and investment in services, recent OECD work shows that developing countries are becoming increasingly specialised and successful in a number of sectors, including audiovisual, port, construction and health services. More open services markets also facilitate technology transfer and development through increased exposure to foreign technologies.

Trade facilitation

The DDA includes negotiations on trade facilitation, i.e. simplifying and harmonising international trade procedures. OECD reports on the costs and benefits of trade facilitation released in 2005 showed that businesses, governments and consumers in developed and developing countries stand to gain from smoother and more efficient trade procedures.

While there are some costs to implementing new trade facilitation measures, these are more than offset by staff savings at the border and by enhanced control and revenue collection.

An OECD forum on “Negotiating on Trade Facilitation – Implications for Developing Countries” in Sri Lanka in October 2005 brought together a wide range of developing country stakeholders to consider ways to move forward on this important issue.

Export credits

Governments provide official export credits in support of national exporters competing for overseas sales by providing loan guarantees, export credit insurance and direct loans. In 2004, the amount of business covered by such support was approximately USD 60 billion. The OECD’s work in this area includes maintaining and developing the international Arrangement on Officially Supported Export Credits. This sets limits to the financial terms and conditions for official support for export credits, including for ships, nuclear plants, aircraft and tied aid.

The Arrangement is continually updated to reflect market changes and to take account of WTO developments. Special financial terms for renewable energies and water projects were added in mid-2005 for a two-year trial period to help promote the use of renewable energy resources and access to safe drinking water. Project finance and non-standard repayment profiles were also incorporated in the Arrangement to reflect market practices.

A review of the disciplines applicable to the aircraft sector, annexed to the Arrangement, is expected to be completed in 2006; the aviation business and industry sectors have provided their views. Additionally, a review of a 2000 Action Statement on Measures to Deter Bribery in Officially Supported Export Credits is under way, as well as a review of the OECD Recommendation which sets out procedures for assessing the potential environmental and social impacts of projects for which official support is requested; both are expected to be completed in 2006. The views of civil society have been sought in both these reviews. ■

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

DID YOU KNOW...

that if all countries reduced their trade transaction costs by just 1%, worldwide income gains could total over USD 43 billion, with more than 60% of it going to developing countries?

www.oecd.org/ech/xcred
xcred.secretariat@oecd.org



(Left to right)

Chinese Taipei Deputy Minister for Economic Affairs, Steve Ruey-Long Chen; Argentinian Secretary of Trade and International Economic Relations, Alfredo Chiaradia; Journalist, *International Herald Tribune*, Floyd Norris; Swedish Minister for Industry and Trade, Thomas Östros; Egyptian Minister of Foreign Trade and Industry, Rachid Mohamed Rachid; Chilean Minister of Foreign Affairs, Ignacio Walker; and New Zealand Minister for Trade Negotiations, Jim Sutton, on an OECD Forum panel on trade in May 2005.

Agriculture and fisheries

www.oecd.org/agriculture
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The OECD's work on agriculture and fisheries covers a broad range of domestic and international issues. It helps OECD and non-OECD governments design efficient and well-targeted policies to achieve domestic policy goals while fully participating in the international trading system.

Throughout 2005, the OECD continued to provide timely support to the Doha Development Agenda (DDA) negotiations at the World Trade Organization, as well as to policy makers throughout the OECD as they seek to identify efficient and equitable policy solutions to the problems facing the sector.

Trade and agriculture

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Agriculture is a key component of the DDA. In 2005, the OECD worked on a range of issues of direct relevance to the Doha negotiations, among them preference erosion, export competition and the implications for agriculture of regionalism. Sectoral studies focusing on reform of the dairy and sugar sectors were completed, providing policy makers with valuable information on the likely scale and direction of the impact of reform.

It is increasingly accepted that trade liberalisation, although generally beneficial for most countries, does not benefit everyone affected by the process. An ambitious study, to be published in 2006, attempts to identify winners and losers at the global, commodity and household level. The study will help governments ensure that they have the necessary policies to facilitate needed adjustments or to alleviate hardship where it occurs. A study published in 2005, this time on decoupling, explores the many channels through which different types of policy measures may affect production and spill over into trade distortions. Here too, the objective is to help governments design policies that avoid inflicting damage on others.



(Left to right)
Former EU Agriculture Commissioner, Franz Fischler, and Director General, Research and Analysis Directorate, Agriculture and Agri-Food Canada, Michael Keenan, at the OECD Agriculture Committee high-level meeting on Brazil, China, India and South Africa in June 2005.

This work on decoupling (pursuing policies that have minimal or no effect on production and trade) is being complemented by a series of studies looking at practical policy design, and encompassing targeting, tailoring and implementation issues. In this context, trade-offs are being explored, for example, between targeting and transactions costs. Distribution issues (who benefits and who pays) are also being examined. The possibility of using the taxation or social security systems to tackle income or structural issues in agriculture has been examined in a study that also catalogues the way farmers are treated for tax and social security purposes throughout the OECD. Pro-reform policy initiatives are being studied to see what lessons can be drawn, especially with respect to adjustment and compensation.

DID YOU KNOW...
that over the past 10 years, OECD agricultural water use grew by 3% and now accounts for 45% of total OECD water use?

Far-reaching reviews

www.oecd.org/agr/ete
wayne.jones@oecd.org

Many major non-OECD countries are significant traders in international agricultural markets, so their agricultural policies are important for the international community. In 2005, the OECD carried out the first ever reviews of agricultural policies in Brazil, China and South Africa.

Over the past 10-15 years, economies in all three countries have undergone radical reforms that have provided a more stable investment climate and stimulated agricultural growth. Considerable progress, particularly in poverty reduction, has demonstrated that agriculture can contribute towards achieving sustainable economic development and poverty alleviation.

The same methodology was used in these reports as in reviews of OECD countries, making it possible to compare levels of agricultural support across countries. The reviews showed that the level of support to agriculture from policies remained significantly below the OECD average in all three countries.

Trade liberalisation offers important benefits for the majority of households. But those gains need to be placed in the context of the broader opportunities and adjustment pressures confronting both commercial farmers and smallholders. There is also a growing awareness of harmful impacts that agriculture has on the environment and of the urgency in dealing with problems such as scarcity of water and productive land.

In all countries there is an interest in ensuring balanced economic development across rural and urban areas, and within rural areas themselves. Land market reforms, improving infrastructure and encouraging innovation in technology and the knowledge-base remain important priorities.

The reports provided sound bases for peer reviews of agricultural policies in the countries concerned. As a result, representatives of the 30 OECD countries and Argentina, Brazil, Chile, China, India and South Africa met in June 2005 to discuss how to achieve domestic agricultural policy objectives while facilitating agricultural trade.



DID YOU KNOW...
that the value of Brazil's agri-food exports and China's agri-food imports more than doubled between 2000 and 2004?

Tracking support and protection

The OECD produces annual estimates of support and protection levels in agriculture for its entire membership and increasingly for non-member economies as well. Their timeliness and comparability make these indicators unique. They are also highly credible, as all OECD member countries agree on them prior to publication. The indicators provide a framework for analysis and assessment of agricultural policy developments. These were published in 2005 as *Agricultural Policies in OECD Countries 2005: Monitoring and Evaluation*.

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

DID YOU KNOW...
that farm support in the OECD area varies between 6% of producer receipts for wool and 75% for rice?

Broadening the outlook

www.oecd.org/agr
loek.boonekamp@oecd.org



The *Agricultural Outlook* is a cornerstone of the OECD's forward-looking analysis of agricultural policy and market issues. In a globalising world and with growing participation in agricultural trade by non-OECD countries, these issues increasingly relate to developments outside the OECD area. Yet, they often have important implications for decision-making in OECD countries, be it at the policy level or at the level of private market agents.

To better integrate key developments in agriculture and trade in non-member economies, the 2005 *Agricultural Outlook* was prepared jointly by the OECD and the United Nations Food and Agriculture Organization (FAO). This allowed the analysis to draw on the commodity, policy and country expertise of both organisations. The report finds that rising demand will result in increasing agricultural trade over the next 10 years. But competition in global markets will strengthen with growing south-south trade.



The changing food economy

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OECD analysis increasingly focuses on developments beyond the farm-gate, helping to understand the relationships between the different elements in the food chain and assess policy implications. The growing use of private standards in the food industry and what this might mean for developing countries' access to OECD food markets is receiving particular attention, as are the links between foreign direct investment in the agri-food sector, trade and trade policy.

DID YOU KNOW...
that India is the world's leader
in milk production?

Financing fisheries

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A study on government financial transfers to the fisheries sector, *Financial Support to Fisheries: Implications for Sustainable Development* was finalised in 2005. This work is a timely input into the Doha Development Round and analyses financial support to the sector from the sustainable development perspective, addressing the impacts on the social, economic and environmental dimensions. The OECD fisheries sector receives around USD 6 billion a year in transfers from governments, most of which is used to finance infrastructure and management, research and enforcement. The key findings of the report reinforce the need to take an integrated approach to the analysis and reform of transfers. Support to the sector has consequences that go beyond the immediate impacts on profitability of fishers and will often affect the sustainability of fish stocks and the social resilience of communities.

DID YOU KNOW...
that about USD 6 billion is spent
annually by OECD governments to
support fisheries? These transfers
correspond to almost 20% of
the landed value of catches.

Illegal, unreported and unregulated fishing is a serious international problem, as it undermines efforts to ensure sustainable fisheries resources and generates harmful effect on the economic and social welfare of legal fishers. *Why Fish Piracy Persists: The Economics of Illegal, Unreported and Unregulated Fisheries* was the first study of its kind dealing with the economic, environmental and social aspect of IUU fishing activities. It notes that it will be difficult to eliminate IUU fishing as long as it is perceived to be profitable, so it is important that actions against IUU operators focus on reducing their benefit from it. ■



Top quality fruit and veg... The quality of the produce in your local market is underpinned by the OECD Scheme for the Application of International Standards for Fruit and Vegetables. This helps producers, traders and quality inspectors by developing and revising standards for fruit and vegetables, backed by illustrated brochures (see www.oecd.org/agr/fv).

Taxation

www.oecd.org/taxation
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Policy makers look to tax systems not only to raise tax revenues, but also to help solve social and economic problems. How should international tax arrangements be adapted to today's global environment? How should enterprises that operate in different countries be taxed? Can tax reforms deliver systems that are simpler, fairer and introduce less tax-induced distortions? The OECD helps governments respond to these challenges and shape the tax systems of the 21st century.

DID YOU KNOW...
that it is estimated that funds amounting to USD 7 trillion are held offshore?

The OECD's work on taxation covers a broad range of issues, including tax reform, tax evasion, harmful tax practices, electronic commerce and environmental taxes. It produces internationally comparable statistics and carries out monitoring and assessment of policies. National tax systems are analysed, as well as their effect on labour, capital and product markets.

Reforming personal income tax

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Reform of personal income taxes rose to the top of the political agenda in many OECD countries during 2005, with many politicians calling for such taxes to become simpler and fairer. The OECD has contributed to this debate by providing internationally comparable information.

One source of interest in reforming personal income tax, especially in Europe, has come from the spread of the "flat tax" across large areas of Central and Eastern Europe and Russia.

DID YOU KNOW...
that in 2005 the OECD top statutory marginal personal income tax rate ranged from a high of 59.7% in Denmark to a low of 19% in the Slovak Republic?

There are several versions of the flat tax, but they all apply a single positive rate of tax to the amount of each taxpayer's personal income that exceeds a basic personal allowance, while eliminating most special tax allowances and exemptions. The elimination of these "tax breaks" has enabled countries to



(Left to right)
Italian Deputy Minister for Economy and Finance, Mario Baldassarri and Icelandic Finance Minister, Geir H. Haarde, at the OECD annual ministerial meeting in May 2005.

finance significant reductions in the rate of tax and has made the tax system easier to administer, although at the price of a less progressive distribution of the tax burden.

Most OECD countries have been moving in the direction of a flatter personal income tax, removing tax breaks and reducing the number of tax bands, but many are unlikely to move to a full flat tax because it is seen as likely to shift the tax burden away from those with high incomes to those of more modest means.

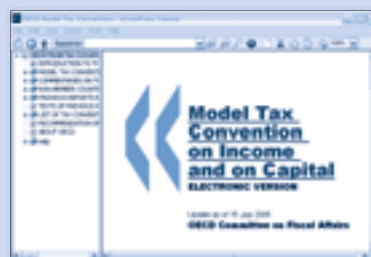
DID YOU KNOW...
that personal income taxes raise an average of 25% of total tax revenues?

Model tax convention

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

The Model Tax Convention requires constant review to keep up with a changing business environment. An update issued in 2005 included new provisions dealing with: the taxation of profits from international transportation; issues arising from cross-border payments of pensions; the definition of permanent establishment; and the treatment of employee stock options. The article of the Model Tax Convention which enables treaty partners to exchange information to ensure proper application of their treaties and to verify compliance with their domestic tax laws was also updated.



Work is underway to consider applying the Model to several other issues, including the taxation of services; the treatment of collective investment vehicles; the attribution of profits to permanent establishments; and tax issues relating to business restructuring. The OECD is also reviewing the application of the Model's non-discrimination provision.

DID YOU KNOW...
that 25 non-OECD economies have set out their position on the OECD Model Tax Convention?

As global trade and investment increase, cross-border tax disputes necessarily increase as well. The Model's mutual agreement procedure (MAP) has been the traditional mechanism to solve these disputes. The OECD is working on ways to make the MAP process more effective for both taxpayers and tax administrators. A Manual on Effective Mutual Agreement Procedures was launched for public comment in February 2006, and the OECD also issued in February a proposal for implementing mandatory resolution of unresolved MAP cases through arbitration for disputes which are not resolved within a two-year period.

Many non-OECD economies take part in this international standard-setting work, and 25 of them have stated their positions on the provisions and interpretations put forward in the Model.

Promoting transparency

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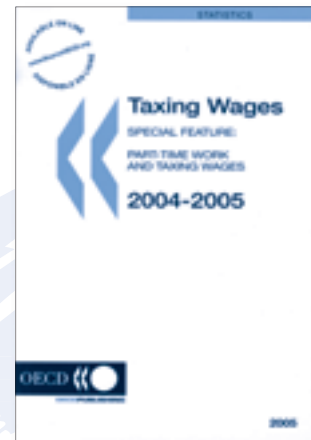
Increased cross-border activity makes it harder for tax authorities to check that individuals and businesses are complying with their legal obligations to pay tax. The OECD's work on improving transparency and establishing effective exchange of information ensures that national laws are applied on an open and consistent basis, and that the information tax authorities need to determine a taxpayer's situation is readily available. This includes financial information, ownership information and accurate books and records.

Effective exchange of information requires bilateral agreements between governments to share information that is relevant to a specific tax inquiry, while at the same time respecting the confidentiality of the information provided.

A recent initiative involves OECD countries and a growing number of other economies working together through the OECD's Global Forum on Taxation. In November 2005, Australia hosted a Global Forum meeting of representatives of 55 governments to review progress in implementing high standards of transparency and effective exchange of information for tax purposes.

The discussions were based on a review of transparency and exchange of information in more than 80 countries and found that considerable progress has already been made towards a global level playing field in these areas. There is no longer any OECD country where a domestic tax interest, of itself, is an impediment to exchange of information. Most countries now allow for exchange of information for criminal and civil tax matters. A growing number of non-OECD economies are negotiating agreements that provide for exchange of information. The final review will be published in April 2006.

A major achievement of the meeting was the formal endorsement of the Global Forum's work by Argentina; China; Hong Kong (China); Macao (China); the Russian Federation and South Africa.



This book provides unique information on income tax paid by workers and social security contributions levied on employees and their employers in OECD countries.

DID YOU KNOW...
 that last year Ireland was able to recover over € 1 billion from tax evaders using offshore banks?

Online tax services

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OECD governments have made substantial progress in the past five years in offering tax services online, but individual tax services have moved faster than those for business, according to the results of a survey released by the OECD in 2005.

The survey found that more than half of the revenue authorities in OECD countries offer transaction services online and there has been substantial progress in the use of electronic filing of returns by taxpayers, with very high take-up rates. But business take-up has been somewhat slower.

There has also been considerable growth in the provision of electronic payment facilities, although the take-up of these services has been slow due to taxpayers' concerns about security and fraud. ■

Governance

Public governance

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Good, effective public governance helps to strengthen democracy and human rights, promote economic prosperity and social cohesion, reduce poverty, enhance environmental protection and the sustainable use of natural resources, and deepen confidence in government and public administration.

The OECD's work on public governance and territorial development helps countries improve government efficiency, accountability, transparency and responsiveness to citizens' needs. The OECD also shares its experience and knowledge with other countries and regions.

DID YOU KNOW...
 that freedom of information laws now exist in 28 OECD countries, up from only 8 in 1980?

Promoting integrity

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Public sector integrity is key to trust in government (see box page 64). The OECD is reviewing challenges and risks in critical areas, such as public procurement, where it is collecting good practices on effective transparency and accountability mechanisms.

A 2006 review of implementing the OECD Guidelines for Managing Conflict of Interest in the Public Service is also focusing on how to ensure transparency and accountability in lobbying, and how to apply conflict-of-interest policy when officials leave the public service to work elsewhere.



(Left to right)
 Istanbul Mayor, Kadir Topbaş,
 and OECD Secretary-General,
 Donald J. Johnston, at a press
 conference in June 2005
 for the launch of the Territorial
 Review of the Istanbul
 Metropolitan area.

E-government

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E-government is increasingly seen as a catalyst for change. The report *E-Government for Better Government*, published in 2005, looks at how public administrations can deliver services in the most convenient and simple way for the user.

The OECD also evaluates national e-government strategies; Mexico, Norway and Denmark in 2005, and Turkey, Hungary and the Netherlands in 2006.

Work in 2006 will also address how to assess and communicate the costs and benefits of e-government initiatives.

Managing public budgets

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The efficiency of resource allocation in the public sector has a crucial impact on overall national economic performance. The budget is also the primary tool for affecting management change in governments.

In 2005, the network of Senior Budget Officials (SBO) discussed key features of budget processes, particularly fiscal sustainability; the use of outsourcing and other market-type mechanisms in providing public services; and the use of performance and results information.

The OECD also conducted peer reviews of the budgeting systems of Switzerland, Norway, China, Thailand, and Croatia.

Work in 2006 will focus on how to optimise the central management of resources. The OECD will also carry out a major update of the OECD Budgeting database, covering more than 60 countries.

DID YOU KNOW...
that legislators use performance measures to make decisions in only 19% of OECD countries?

Regulatory quality and performance

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A high-quality regulatory framework is essential for markets to work effectively. OECD countries agreed in 2005 on Guiding Principles for Regulatory Quality and Performance.

These Guidelines will inform future country reviews, beginning with Sweden and Korea. In 2005, a country review of Switzerland was carried out.

In 2006, work will focus on the use of quality regulation in higher education, healthcare facilities and environmental policy, and on creating a framework for quality regulation across different levels of government.

The OECD has also helped develop principles for self-assessment of regulatory reform in APEC and OECD countries.

They will be used in 2006 by Chinese Taipei, Hong Kong (China), and the United States.



Trust in government

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Public trust in government is a key element of democratic society. To maintain that trust, governments need constantly to rethink their role to meet the changing needs and expectations of citizens.

OECD ministers met in Rotterdam in November 2005 to discuss “Strengthening trust in government: What role for government in the 21st century?” They noted that, while governments have made major changes to the way they manage the public sector in the past decade, building trust in government remains a challenge.

The ministers agreed that a number of actions are needed if citizens are to see government as trustworthy, including promoting openness, integrity, responsiveness, accountability and transparency.

Governments must also be able to respond to emerging problems and changing needs, and strive to continually improve the performance of government. E-government can help improve both policy design and service delivery.

Ministers asked the OECD to assist countries in their efforts to strengthen citizens’ trust in government by focusing on four main areas: engaging better with citizens; assessing the results of reform; integrating risk assessment and management into policy development and delivery; and addressing issues raised by decentralisation and new institutional arrangements between levels of government.

DID YOU KNOW...
that systematic use of Regulatory Impact Analysis was reported by around half of all OECD countries in 2005, an increase from less than a third in 1998?

Indicators of good government

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Member countries also need tools to assess the progress of public sector reform. In 2006, the OECD will start developing measures to assess the impact of public management reforms, and the progress made in implementing them.

Public employment and management

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The OECD published in 2005 a comprehensive study on performance-related pay (PRP) for government employees in 14 countries.

The report found that despite important limitations, PRP appears to provide an opportunity for wider management and organisational changes.

National territorial reviews

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In recent years, the main focus of regional policy has been on growth by making regions more competitive.

This has involved a shift away from redistribution and subsidies for lagging regions in favour of measures to increase the productivity of enterprises and encourage private investment in all regions, including an emphasis on better use of local assets and co-ordination of key governmental and non-governmental actors.

The new approach, which promises more effective use of public resources and significantly better policy outcomes, is central to the growth prospects of both OECD and non-OECD economies.

OECD reviews of national territorial policy examine how this policy shift is being implemented in practice, and generate recommendations that are both useful for the country concerned and encourage exchange of experience and good practice.

Reviews in 2005 focused on Finland and France. Reviews of Norway, Luxembourg and Portugal are planned for 2006-2007.



Territorial development

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Governments are increasingly active in promoting growth at the regional level. In 2005, the OECD published *Building Competitive Regions*, along with *OECD Regions at a Glance*, the first in a series of biennial publications monitoring trends in regional performance.

Lessons drawn from the findings of national reviews of territorial policies contribute to major analytical reports on policies to improve the performance of rural regions and of metropolitan areas (see box page 65).

Sharing expertise

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The OECD is sharing its experience to encourage more effective, efficient and transparent governance structures in a broad range of countries.

The Russian Federation in 2005 became the first non-member country to be reviewed under the OECD Regulatory Reform Programme (for further information, contact nikolai.malyshev@oecd.org).

A report on *Governance in China* published later in the year found that maintaining its economic dynamism will require adapting institutions and the functioning of the state to an increasingly market-oriented economy (see box page 78 – for further information, contact irene.hors@oecd.org).

The OECD Middle East and North Africa (MENA) Good Governance for Development initiative aims at modernising government in this region.

This is the first time OECD has engaged in a policy dialogue with this part of the world. The MENA initiative also looks at investment (see *Private sector governance chapter*, page 70). ■



Private sector governance

The integrity of corporations, financial institutions and markets is central to the health of our economies and their stability. Companies rely on an effective legal, regulatory and institutional framework in which they can compete fairly and function properly.

OECD work on private sector governance encompasses issues such as corporate governance, fighting bribery and corruption, and competition law and policy.

Enhancing corporate governance

The OECD Principles of Corporate Governance provide an international benchmark in this area for governments, regulators and other standard-setters.

During 2005, the OECD worked to develop a methodology for assessing how well the Principles are being implemented in individual countries. This will help countries to share experiences about effective corporate governance practices and avoid overly burdensome regulation.

In addition, work began on a “Boardroom Guide to the OECD Principles” that will pool business experiences on how they can be put to practical use.

This guide will also draw on the experience of the OECD Regional Corporate Governance Roundtables, which are now developing responses to the new OECD Guidelines on Corporate Governance of State-Owned Enterprises (see box page 69).

Fostering competition

Competition is a vital component of efficient markets and overall economic performance and prosperity. OECD work on competition strengthens antitrust law enforcement and helps competition authorities advocate for pro-competitive reforms.



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The Anti-Corruption Network for Transition Economies held their 6th General meeting in Istanbul in May 2005.

In 2005, work began on approaches to including competition in the impact assessment process that is applied to new regulations and at times to existing ones.

Also in 2005, OECD efforts to fight hard-core cartels led to the adoption of Best Practices for the Formal Exchange of Information between Competition Authorities in Hard-Core Cartel Investigations as well as to a first ever meeting with public prosecutors aimed at strengthening criminal law enforcement.

A peer review examination of the European Commission in competition policy was also carried out.

Financial education

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Increasingly sophisticated financial markets and a shift in the responsibility for financial decisions from governments and institutions to individuals are making financial education more and more important.

Yet many consumers lack financial skills or overestimate their knowledge of financial issues. The OECD's Financial Education Project helps equip people to deal with increasingly complex financial decisions.

In 2005, this project produced the Recommendation on Principles and Good Practices for Financial Education and Awareness which helps policy makers design and implement financial education programmes.

Also in 2005, the OECD published *Improving Financial Literacy: Analysis of Issues and Policies*. This book evaluates financial literacy surveys and financial education programmes in OECD countries and suggests actions policy makers can take to improve financial education and awareness.



Investment

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A core mission of the OECD is to promote investment for growth and sustainable development worldwide. A key area of work in 2005 was the development of the OECD Policy Framework for Investment (PFI, see box page 70).

The Organisation is also working on a risk management tool for investors in weak governance zones and, together with the IMF, on improving international investment statistics.

DID YOU KNOW...

that differences in competition can account for over half of the current gap in GDP growth per capita between the euro area and the United States?

Corporate governance of state-owned enterprises

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The state remains an important owner of large firms operating in key sectors, including energy, utilities and infrastructure, in many OECD countries. But many of these firms have conflicting corporate objectives, unclear board responsibilities and opaque appointment procedures.

Finding a balance between the state's responsibility for actively exercising its ownership functions while avoiding political interference in company management is a major challenge. Governments must also ensure a level playing field for private sector companies to compete with state-owned enterprises and also avoid distorting competition through misuse of their regulatory or supervisory powers.

To help governments make state-owned enterprises more competitive, efficient and transparent, the OECD in 2005 approved new Guidelines on Corporate Governance of State-Owned Enterprises.

The Guidelines provide practical suggestions for dealing with different situations. They suggest, for example, that the state should exercise its ownership functions through independent entities acting in accordance with a publicly-disclosed ownership policy. The Guidelines also recommend the strict separation of the state's ownership and regulatory functions.

If properly implemented, these and other recommended reforms would go a long way to ensuring that state ownership is exercised in a professional and accountable manner, and that the state plays a positive role in improving corporate governance across all economic sectors. This would result in more competitive enterprises and improved public governance through more transparent political and regulatory processes and more accountable use of public funds.

The Guidelines have attracted global interest and have been endorsed by governments and other stakeholders. The OECD will continue to convene interested parties from both OECD and non-OECD countries to support good corporate governance of state-owned enterprises.



DID YOU KNOW...

that state-owned enterprises with some private ownership account for 20% to 30% of market capitalisation in some OECD countries?

The Middle East and North Africa (MENA)-OECD Investment Programme held its first ministerial meeting in Jordan in February, when 16 Arab nations adopted a declaration setting out common principles and good practices for encouraging investment in the region.

Participants acknowledged the need for transparency and predictability of national policies, laws, regulations, administrative practices and statistics affecting investment.

The MENA-OECD Investment Programme is part of a two-pronged initiative on “Governance and Investment for Development”, led by the governments of the MENA region with support from the countries of the OECD.

A parallel initiative for “Good Governance for Development” aims to achieve improvements in public governance (see *Public governance chapter, page 66*).



Ministers from MENA countries in charge of investment policy reform with their OECD counterparts at their first ministerial meeting in Jordan in February 2006.

Investing for development

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Attracting investment is a key element for ensuring development, and that means creating the right conditions for private investment to flourish.

The OECD contributed to international efforts to boost investment for development in 2005 by developing a Policy Framework for Investment (PFI). It invited public comment on the draft text in early 2006 and the text was due to be approved by OECD ministers in May.

The PFI brings together policy practices in 10 inter-related areas which are proven to foster fertile domestic conditions for private investment.

The PFI is being developed by more than 50 OECD and non-OECD governments, through extensive regional consultations in Africa, Asia, Latin America and South East Europe. It complements recent multilateral development initiatives, including the UN Millennium Declaration, the Monterrey Consensus, the Doha Development Agenda and the Johannesburg World Summit on Sustainable Development Declaration.

The PFI will be used by governments in their own whole-of-government self-evaluations and through peer dialogues in regional co-operation and multilateral discussions. It will also be a reference point for OECD and other international organisations’ co-operation programmes and could serve as an organising principle for aid donors’ assistance for investment capacity-building.



This book provides a record of OECD co-operation programmes with non-member economies and their results.

OECD Guidelines for Multinational Enterprises

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The OECD Guidelines for Multinational Enterprises have become a leading corporate responsibility instrument. In 2005, the Guidelines were increasingly used for mediation on business ethics issues by trade unions, NGOs and businesses.

Governments also use the Guidelines for interaction with business; for example, more than half of the 39 adhering governments use the Guidelines in the context of export credits, investment guarantees and trade and investment promotion campaigns.

The Guidelines are also generating increased interest among developing countries. China, India, South Africa and others are seeking further co-operation with the OECD in this area. Ways of implementing the Guidelines in developing countries were identified at a 2005 Round Table on Corporate Responsibility.



Bribery

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The OECD Anti-Bribery Convention is an international legal instrument that makes it a crime to bribe foreign public officials to win contracts.

A group made up of representatives of the Convention's 36 signatory states evaluates countries' anti-bribery laws and practices and recommends improvements, often sparking significant progress.

Currently, 22 countries have undergone evaluation, and reviews of all participating countries are scheduled for completion in 2007.

The OECD also strengthens anti-bribery legislation and institutions through global outreach activities – most recently focusing on China and the Middle East and on the field of public procurement – by co-operating with governments and relevant stakeholders. ■

Development of non-member economies

Development co-operation

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OECD donor countries account for more than 90% of total official development assistance (ODA) worldwide. The OECD's Development Assistance Committee (DAC) focuses on increasing aid flows and ensuring that this aid is used in the most effective way to reduce poverty and support sustainable development in developing countries.

Development co-operation work in 2005 focused on improving aid effectiveness and the challenges of significantly increased aid flows by 2010, as well as work on fragile states and capacity development.

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

Making aid more effective

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More than 100 donor and developing countries endorsed a landmark agreement in March 2005 to make aid more effective and to measure their progress in doing so. The Paris Declaration on Aid Effectiveness was backed by a list of 12 targets and indicators against which progress will be measured. The UN World Summit in September officially gave the support of world leaders to the Paris Declaration.



(Left to right)
 DAC Chairman, Richard Manning; Secretary General, Ministry for Planning, Development Programming and Regional Planning, Cameroon, Roger Mbassa Ndiné; Secretary General, Ministry for Agriculture and Rural Development, Cameroon, Elisabeth Balepa; OECD Deputy Secretary-General, Herwig Schlögl; Manager, International Liaison, International Policy, Ministry of Agriculture and Forestry, New Zealand, Neil Fraser; and Vice Minister of Agriculture, Kazakhstan, Liliya Musina, at the Global forum on Agriculture in November 2005.

The challenge now is to implement these commitments. The OECD-DAC Working Party on Aid Effectiveness has set up a group to co-ordinate international monitoring of commitments and indicators, establish baselines for the indicators and report across a range of countries. The first major review of progress will take place in Ghana in 2008 at the third high-level Forum on Aid Effectiveness.

Outlook for aid

At the G8 and UN summits in 2005, donors promised increased aid to accelerate progress towards the Millennium Development Goals (MDG). This would increase Official Development Assistance from OECD-DAC donors by some USD 50 billion to nearly USD 130 billion in 2010, 0.36% of members' gross national income. Aid to Africa is projected to double to over USD 50 billion in 2010. Given pressure on public budgets in many OECD countries, delivering such increases will be a challenge. Achieving results and demonstrating the impact of aid on poverty are crucial to ensure public support.

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DID YOU KNOW...

that the USD 50 billion increase in aid, in real terms, promised by OECD countries would be the largest ever expansion of ODA?

Assessing aid efforts

The OECD carries out regular reviews of each member country's development co-operation policies and programmes, to help governments improve policy making, adopt best practices and comply with agreed standards and principles. The reviews emphasise opportunities to learn from each other's experience and include aspects such as new policy developments; aid volume, channels and distribution; selected thematic and sectoral policies; policy coherence for development; organisation and management; and operations in developing countries. In 2005, New Zealand, Sweden, Switzerland, Belgium and Germany were reviewed.

www.oecd.org/dac/evaluation

www.oecd.org/dac/peerreviews

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The first Economic Commission for Africa (ECA)/OECD-DAC Mutual Review of Development Effectiveness, which assessed progress by Africa and OECD member countries in delivering on their promises to African development, was published in 2005. The Report's findings will be forwarded to the New Partnership for African Development (NEPAD) and the OECD governing bodies in 2006.

ICT and development

Information and communication technology can be an effective tool for development. But only around 5% of populations in low-income countries have land lines or mobile telephones, and Internet users are even fewer. The "digital divide" is one of the main concerns of the international development community (see box page 75).

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Africa Partnership Forum

African development has become an increasingly important international agenda item. The African Partnership Forum (APF) was established by a G8 Summit in 2003 to broaden the existing high-level development dialogue between the G8 and NEPAD. The APF is becoming a key forum for discussing and monitoring policy issues, strategies and priorities in support of Africa's development.

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Food aid

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Feeding the hungry is almost universally felt as a compelling moral obligation. The rich giving their food to the poor seems like an effective way to alleviate hunger and provides one of the most powerful images of international co-operation. But which is most effective – giving food, or giving the money to buy food? *The Development Effectiveness of Food Aid: Does Tying Matter?* published in 2006 looks at this question and shows that, in most circumstances, financial aid is the preferable option. Food aid in kind is at least 30% more expensive than financing commercial imports because it is often tied to obligations to buy other goods from the donor and is, on average, 50% more expensive than local food purchases. The relative efficiency of local and third country purchasing also suggests that untying food aid and opening it up to much broader sourcing would clearly benefit agricultural development in many low-income developing countries.

The APF agreed in October 2005 to establish a support unit hosted by the OECD to strengthen its role as a venue for promoting mutual accountability.

A joint action plan will be developed setting out goals, commitments, planned actions and criteria for assessing progress that will be systematically monitored in future APF meetings.

ICT for development

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Information and communication technologies (ICTs) connect people, regions and countries much more closely than ever before, especially through the Internet and mobile phones. However, the “digital divide”, especially that between the developed and developing countries, is a major concern.

An OECD report on “ICTs for Economic Growth and Poverty Reduction” published in 2005 shows that ICTs could be an effective tool for development, poverty reduction and achieving the Millennium Declaration Goals (MDGs). It recommends that donors and development partners integrate ICT into their development efforts by stressing the role of the private sector in increasing access to ICTs, synergy of ICT and other sectors, assessing its efficiencies, catch-up of rapid technological changes, capacity building of stakeholders and identifying good practice.

The UN World Summit on the Information Society (WSIS) was intended to create the global vision and global dialogue needed to build an equitable “information society”. The Summit took place in two phases – in December 2003 in Geneva and November 2005 in Tunis.

The OECD has contributed to the WSIS process and its follow-up by producing analytic papers on Summit issues including regulatory reform, ICTs and economic growth, network security, integrating ICTs in development programmes, donor ICT strategy, and financing ICTs for development.

The OECD also provides input to the ongoing debate on Internet governance and has organised or co-organised several thematic meetings connected to the WSIS, including two in 2005 on ICT and economic growth (in Guatemala) and on measuring the information society (in Geneva).

The OECD is also one of the 11 international and regional organisations in the Partnership on Measuring ICT for Development. The Partnership helps developing countries in their efforts to produce information society statistics by mobilising resources for methodological work and helping build local capacities.



This issue includes papers on the “Emerging Development Agenda” and on “ICTs for Economic Growth and Poverty Reduction”.

OECD Development Centre

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Work in 2005 on financing development found that although several schemes on the table, such as the International Finance Facility or targeted taxes, could contribute to achieving the MDGs, the only sure way of financing them is through increased ODA. The Centre's work on the MDGs has also focused on the need for institutional change in developing countries and improving the economic and social status of women.

The 2005 edition of the *African Economic Outlook* focused on the role of small and medium enterprises in development. It also found that much higher rates of growth than current levels will be needed to achieve the MDGs. This annual publication is a joint venture of the Development Centre and the African Development Bank, and is partly financed by the European Commission.



The Sahel and West Africa Club

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The Sahel and West Africa Club's (SWAC) activities cover 17 countries with an estimated 290 million inhabitants. The Club works within a network which includes regional organisations, governments, civil society, the private sector and universities.

Within the context of their partnership, the Economic Community of West African States (ECOWAS) and the SWAC agreed to co-produce as of 2007 an annual report on the state and perspectives of West Africa.

The first Forum of Political Parties, the Media and Civil Society in West Africa, organised by the SWAC at the end of June, brought together 250 participants from 18 countries to discuss their roles and responsibilities in building peace and democracy in West Africa. In October 2005, the SWAC co-organised a forum on food security in West Africa with ECOWAS and the Permanent Inter-States Committee for drought control in the Sahel (CILSS) to stimulate strategic decisions geared towards action concerning food security over the medium- and long-term. The SWAC also produced and widely disseminated two key documents on the cotton crisis in West Africa to encourage dialogue between West African actors and their development partners in the North. ■



(Left to right) SWAC Deputy Director, Sunhilt Schumacher; ECOWAS Executive Secretary, Mohamed Ibn Chambas; and SWAC Director, Normand Lauzon, in Abuja during partnership talks with ECOWAS in March 2006.



(Left to right) US Permanent Delegate to the DAC, George Carner; and Administrator at the US Agency for International Development, Andrew Natsios, at the DAC high-level meeting in March 2005.

Global relations

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

The OECD's founding Convention states that members "should contribute to sound economic expansion in member as well as non-member countries in the process of economic development". The OECD's work with economies outside its membership is designed to fulfil this mission.

This work is carried out through its "global relations" strategy, based on mutual influence and partnerships, covering all areas of the OECD's work.

The Organisation in 2005 adopted a strategic framework to guide these relations, since they are increasingly conducted as part of the Organisation's regular work on various topics from economic growth and agriculture to investment and governance. The framework allows for flexibility in individual areas of work while encouraging a coherent overall OECD approach to global relations.

The framework is also important because it recognises that the OECD's relationships with non-OECD economies are even more fundamental in today's interdependent world than they were when the Organisation was founded. This remains, and will continue to remain, true regardless of any changes to OECD membership.



(Left to right)
Indonesian Trade Minister,
Mari Pangestu, and Egyptian Minister
of Foreign Trade and Industry,
Rachid Mohamed Rachid, at the OECD
annual ministerial meeting in May 2005.

China

www.oecd.org/ccnm/china

sean.dougherty@oecd.org

The Chinese economy was frequently in the headlines in 2005, not least because of OECD forecasts that China could become the world's largest exporter by 2010.

This forecast came in the OECD's first ever *Economic Survey of China*, which marked a landmark year for that country's co-operation with the Organisation. Also during 2005, the OECD produced a review of China's agricultural policy and a review of governance in China, and worked on a study of its public spending.

This work is not a new departure for the OECD – in fact, its programme of co-operation with China notched up a decade of involvement in 2005 – but it does reflect the success of the programme, which has been fuelled by the constant discovery of mutually beneficial opportunities for dialogue and co-operation.

In May 2005, Bo Xilai, the minister of commerce, participated for the first time in the annual OECD ministerial meeting. He and OECD Secretary-General, Donald J. Johnston, issued a joint statement acknowledging the positive contribution made by the OECD to the process of economic reform in China.

The increasing number of OECD reports also reflects an increasing willingness by China to submit itself to OECD policy reviews.

On the heels of the flurry of reports in 2005, China requested an OECD review of regulatory reform and work has started on an environment performance review, due to be published in 2007, as well as a review of China's innovation system.

China is a full participant in the Steel Committee and has also been invited to participate as a regular observer in four other OECD committees.

For the first time, China attended a meeting of the Working Party Three of the Economic Policy Committee in September 2005 as an *ad hoc* observer, when this group was carrying out the economic review of China.



(Left to right)

Chinese Minister of Commerce, Bo Xilai, and OECD Secretary-General, Donald J. Johnston, at the OECD annual ministerial meeting in May 2005.

DID YOU KNOW...

that China has become the biggest exporter of information and communications technology (ICT) goods?



Global strategy

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

The OECD's global relations are structured through regional approaches, country programmes, and Global Forums on particular topics. In addition, 21 non-members are directly involved in the work of various OECD Committees as full participants or regular observers.

The strategic framework for the OECD's global relations is built round three key objectives: contributing to the harmonious functioning of the global economy; promoting shared prosperity; and encouraging shared knowledge for better public policy.

As part of its contribution to the harmonious functioning of the global economy, the OECD promotes worldwide policy coherence – in other words, it ensures that policies to achieve one aim, such as universal access to drinking water, are not undermined by other policies, such as a ban on importing or exporting water filtering equipment.

The OECD also involves major emerging economies and significant players in its work in specific policy areas, such as energy or agriculture, and uses its comparative research and policy dialogue to help reduce tensions and prevent conflicts.

The OECD contributes to promoting shared prosperity by helping to integrate non-members into the global economy, as well as by helping to enhance the economic prospects and standards of living of such countries by enabling them to co-operate in and benefit from policy dialogue and related activities.

And it draws on experiences of countries outside its membership to anticipate the emergence of significant new issues relevant to the OECD's mission, as well as capturing and disseminating good practices that are relevant beyond the OECD membership.

Regional and country programmes

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

Work with non-OECD economies is organised in regional approaches and through individual programmes.

Regional initiatives cover Europe, Caucasus and Central Asia; Asia; Latin America; Middle East and North Africa (MENA); and Africa in support of the New Partnership for Africa's Development (NEPAD). A sub-regional programme in South-Eastern Europe contributes to the realisation of the aims of the Stability Pact for the region. Co-operation with Brazil, China (see box page 78) and Russia is carried out through individual country programmes.

In 2005, the **Sigma Programme**, a joint initiative of the OECD and the European Union, helped the 10 new EU member states to elaborate national anti-fraud strategies, provided peer assistance to supreme audit institutions



(Left to right)
OECD Regional Forestry seminar with the Association of South East Asian Nations in September 2005.

and internal audit, and launched a major project to assess regulatory management capacity. In the five EU candidate countries (Bulgaria, Croatia, Romania, FYR Macedonia and OECD member Turkey), Sigma supports administrative modernisation and helps develop policy-making and co-ordination capacities. Work in the Western Balkans included assistance to civil service reform and peer reviews of public procurement systems.

Global Forums

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

Nine OECD **Global Forums** provide a framework for dialogue on global issues that cannot be resolved by a single country or region: sustainable development; knowledge economy (biotechnology and e-commerce); governance; trade; international investment; international taxation; agriculture; competition and education. The Global Forum on Education was added in 2005, and was launched at a meeting in Chile in November. A tenth Global Forum, on Development, will be launched in 2006.

Partnerships with other international organisations

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

The OECD has partnership agreements with the World Bank, UNCTAD, the Inter-American and Asian Development Banks and the World Health Organization. These partnerships help to carry the OECD's institutional and policy know-how to non-members.

They also improve the OECD's insight into other organisations' work and experience and respond to the growing demand from member countries for efficiency and avoidance of duplication of work among international organisations. ■



(Left to right)
President of the Asian Development Bank, Haruhiko Kuroda with OECD Secretary-General, Donald J. Johnston, signing the Letter of Intent on the Partnership Agreement between the Asian Development Bank and the OECD in March 2005.

Statistics

Statistics

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

Informed decisions require reliable information, and that holds true at all levels from policy makers to the public. High-quality statistics underpin the whole fabric of the OECD's analytical work, so their accuracy and timeliness are vital to the Organisation's reputation for quality.

The OECD compiles statistics for the 30 member countries and selected other economies, ranging from annual and historical data to main economic indicators such as economic output, employment or inflation. This information is made public in a range of specialist statistical publications and databases.

But the OECD does not only collect and disseminate data; it also works with member countries and other international organisations to develop international standards and to improve the quality and comparability of the statistics it receives.



Have data will travel. A range of OECD statistics can be downloaded from anywhere in the world.

www.oecd.org/statistics/indicators
www.oecd.org/std/research/timeliness
www.oecd.org/std/cli-ts
stat.contact@oecd.org

Short-term indicators

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

The OECD's principal short-term indicator database is the monthly *Main Economic Indicators (MEI)*, which includes statistical series for member countries and indicators for other economies such as Brazil, China, India, Indonesia, Russia and South Africa.

Gross domestic product (GDP) figures, composite leading indicators, unemployment rates, consumer prices and international trade figures are released monthly. Several improvements were made to the MEI database in 2005 to ensure the continued quality of the statistics.

Fun facts

www.oecd.org/publications/factbook
www.oecd.org/infobycountry

Reliable numbers are vital for measuring all aspects of our daily lives, from life expectancy to wage levels or health systems' performance. But individual statistics only measure one item; they need to be brought together in a user-friendly way if they are to paint a picture of where we are, where we are going and how we compare with our neighbours in terms of social, economic and environmental development.

The annual *OECD Factbook: Economic, Environmental and Social Statistics*, launched in 2005, offers just that.

The *Factbook* brings together statistics covering 10 key areas: population and migration, macroeconomic trends, economic globalisation, prices, labour market, science and technology, environment, education, public policies and quality of life. The 2005 edition also includes a special section on energy.

For each theme, tables and graphs show trends over the past 10 years and the relative ranking of each of the 30 OECD member countries. Each is accompanied by text definitions of the indicators and their comparability. The *Factbook* is also available online.

If users want to see a statistical profile of a particular country across all 10 themes, as well as how that country measures up compared with its OECD colleagues, they can go to the country statistical profiles on the "country pages" of the OECD Web site, also launched in 2005.

The second edition of the *Factbook* in 2006 includes several new indicators, especially in the social statistics area, and a special chapter on globalisation. The online version contains longer time series and more detailed metadata.



The OECD helps develop international guidelines and recommendations in several areas of short-term economic statistics, such as handbooks for compiling and presenting data or indices. In 2005, it launched the online Short-Term Economic Statistics (STES) Timeliness Framework, which provides information on recommended practices for improving timeliness, reducing costs and improving accuracy in short-term statistics.

The OECD also works with the European Commission to develop international standards for business and consumer opinion surveys.

National accounts and financial statistics

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

The OECD is one of the main collectors and disseminators of detailed national accounts data for international comparison. Several thousand data series are available for each OECD country on paper or online, including GDP and expenditure components, employment, detailed industry accounts, general government accounts, household accounts, and financial accounts.

Specialised databases for areas such as central government debt and bank profitability supplement the financial data.

The OECD is actively involved in an ongoing revision of the System of National Accounts (SNA), which is due to be completed in 2008. OECD experts have helped to develop guidelines on measuring intangible assets, general government activities, pension schemes, labour input and saving ratios.

The OECD annual meeting on national accounts represents the most important opportunity for national and international experts to discuss measurement issues and improve international comparability of these statistics. In 2005, special attention was paid to measuring well-being, an issue that will also be addressed in 2006.

Prices and structural economic statistics

www.oecd.org/statistics/productivity
www.oecd.org/statistics/prices-ppp
www.oecd.org/statistics/trade
stat.contact@oecd.org

Productivity statistics are the centrepiece of the OECD's economic indicators. Labour and multi-factor productivity measures are available for a large number of OECD countries and a compendium of productivity indicators was published in 2005.

Another core statistical activity of OECD is the development of purchasing power parities (PPP), which set a theoretical exchange rate where the same goods have the same value in each country being compared. The PPPs form the basis for most international comparisons of GDP, GDP per capita and labour productivity. The PPP programme covers all 30 OECD countries plus Israel and is carried out in close co-operation with the European Union. A new manual was released in 2005.

The OECD is also the official source worldwide for detailed merchandise trade data of OECD countries. In 2005, it finalised a new world trade database with the United Nations (UN), as well as upgrading and extending the OECD databases on trade in services and on balance of payments.

The OECD Expert Meeting on International Trade Statistics brings together users and producers of statistics and allows progress in methodological research. An update of the Manual on Statistics of International Trade in Services is under way and due to be completed by 2009.

OECD Structural Business Statistics were reviewed and extended in 2005. In November, the first Structural Business Statistics expert meeting took stock of progress to date in statistics for small and medium enterprises (SME) and discussed future action. This followed a ministerial meeting in 2004 which called for better statistical measurement of SMEs.

The OECD is also working with other agencies to co-ordinate international development work on services statistics. A detailed progress report was provided to the UN Statistical Commission and published in 2005.

Outreach activities

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

The OECD works with other economies to enhance the production of reliable, internationally comparable statistics. Increasingly, work has focused on large non-member countries, particularly Brazil, China, India, Indonesia, the Russian Federation and South Africa. Work in 2005 concentrated on forming quality frameworks, measuring the non-observed economy, GDP revision and the overall quality of national accounts.

A simplified version of the OECD system of business tendency surveys has been successfully exported to China and several Latin American countries. In 2005, the OECD developed composite leading indicators for Brazil, China, India, Indonesia, the Russian Federation and South Africa.

The Eurostat-OECD PPP programme covers a number of non-member economies, including the Russian Federation. Also, in co-operation with the European Commission, PPPs are developed for the Western Balkan region. In 2005, the OECD was involved in a project led by the World Bank to develop PPPs on a worldwide level.

DID YOU KNOW...
that the OECD Country Statistical Profiles contain 100 comparable indicators providing a comprehensive view of economic, social and environmental developments?

Reform of statistics information system

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

The OECD's organisation-wide data warehouse, OECD.Stat, continued to grow in 2005 to cover all major OECD statistics. The system is increasingly being used to automatically generate data online. The OECD has also restructured its metadata and improved its quality, in line with the OECD Principles for metadata. ■

Communications

Public affairs and communications

www.oecd.org

Effective communication is essential to enable the OECD to fulfil its mission to promote intergovernmental co-operation, as well as to explain its activities to a broad range of audiences and stakeholders, from policy makers to business representatives, academia, labour, civil society, the media and the general public.

During 2005, the OECD focused on expanding its audiences using targeted information, increasingly taking its news to the media worldwide, establishing country-specific Web pages and adding a Chinese-language site to the existing English, French, German, Japanese and Spanish offerings.

Publishing

www.oecd.org/publishing
oeccpublishing@oecd.org

OECD publications are a prime vehicle for disseminating the Organisation's analytical output. OECD statistics and analysis enable policy makers to assess their countries' performance in an international context and compare approaches to common problems. Academics worldwide use the OECD's vast pool of information to help fuel their research and teaching activities.

In 2005, a new online bookshop enabled the OECD to increase substantially sales over the Internet, while the new StatLink programme enabled readers to easily access Excel tables containing the data used in many OECD books. StatLink won an award from the Association of Learned and Professional Society Publishers (ALPSP) for innovation in publishing.



A conference on trade issues co-organised by the OECD Berlin Centre and the Federation of German Industries (BDI) in November 2005, in the run-up to the WTO ministerial meeting in Hong Kong.

The OECD's online service, SourceOECD, continued to grow. Researchers, faculty, and students at more than 700 institutions worldwide now have access to the full range of OECD statistics and publications, and over 4,000 other institutions make selected content available.

A number of innovative publications were produced in 2005, including the first *OECD Factbook*, an annual providing key statistical information across all subject areas covered by the OECD and covering all OECD countries (see box page 82).

The OECD also published the *Model Tax Convention on Income and on Capital* in electronic form (see *Taxation* chapter, page 60).



Media focus

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



The OECD focused on taking its message to the world's media on their home turf in 2005, holding more news conferences, briefings and other media events outside Paris than ever before, many of them in non-OECD countries.

The issues covered ranged from agriculture in Brazil and the fight against corruption in China to corporate governance in Russia and international trade negotiations in Geneva.

OECD experts on agriculture and trade were on hand in Hong Kong to help journalists understand the issues at stake at the World Trade Organization's ministerial conference.

In parallel, investment in training OECD staff to hone the messages they wish to transmit helped to improve the quality of coverage. These activities paid off, with increased coverage of the OECD and its work on the front pages and in editorials in leading international newspapers.

Training staff to handle interviews with television and radio reporters will be a priority for 2006 to help maximize the OECD's profile in the broadcast media.

Relations with civil society

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

The OECD has been engaged with civil society since its creation, notably through the Business and Industry Advisory Committee to the OECD (BIAC) and the Trade Union Advisory Committee to the OECD (TUAC), (see box page 89). OECD co-operation with BIAC and TUAC has been complemented in recent years by co-operative activities with other representatives of civil society and parliamentarians (see box below).

Parliamentary relations

www.oecd.org/civilsociety
meggan.dissly@oecd.org
sue.kendall-bilicki@oecd.org



High-level parliamentary seminar on "China's Current Economic Policy Challenges" in October 2005.

The OECD has long-standing institutional relations with the Parliamentary Assembly of the Council of Europe and with the NATO Parliamentary Assembly, enabling parliamentarians to benefit from the Organisation's expertise and to comment on its work.

The Council of Europe Parliamentary Assembly holds an annual debate on the work of the OECD, during which the OECD Secretary-General addresses the assembly and responds to questions. OECD experts regularly present their work to relevant committees of the assembly. There is also an annual dialogue with the Economics and Security Committee of the NATO Parliamentary Assembly.

In addition to these relationships with interparliamentary bodies, the OECD organises an increasing number of high-level parliamentary seminars. These discussions focus on current OECD analyses with a view to getting the input of parliamentarians and their support in implementing OECD recommendations.

Seminars in 2005 focused on China, growth in services and education issues, while the first seminar of 2006 looked at the implications of population ageing.

Civil society organisations (CSOs) are active at every stage in developing, implementing and monitoring products of OECD work such as the OECD Guidelines for Multinational Enterprises, the Principles of Corporate Governance, or the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

The OECD Visits Programme welcomes some 4,000 people from civil society, academia, business, labour and government to the OECD every year.

OECD Forum

A key element of the OECD's communications with stakeholders is the annual OECD Forum, an occasion for business, government, labour, academia and civil society to debate "hot" issues on the political agenda. It is open to the public, and is held immediately before the OECD annual ministerial meeting, allowing participants to help shape the ministerial deliberations.

More than 1,250 people took part in OECD Forum 2005 on the theme "Fuelling the Future: Security, Stability, Development".

Swedish Prime Minister Göran Persson, who chaired the ministerial meeting, spoke at the Forum, while Industry and Trade Minister Thomas Östros reported on the Forum debates to the ministerial meeting.

OECD Forum 2006, "Balancing Globalisation", will again take place alongside the annual ministerial meeting in Paris and will be held on 22 and 23 May.

DID YOU KNOW...
that more than 4,000 people visit the OECD every year to learn about its work?

www.oecd.org/forum2006
oecd.forum@oecd.org



Round Table on "Investment and Energy" at OECD Forum 2005 in May.

The OECD Centres

The OECD Centres in Germany, Japan, Mexico and the United States organise lectures, seminars and other events to disseminate the Organisation's work, often helping bridge language gaps. The Centres also offer a source of OECD books and information for member and non-member countries.

In 2005, the OECD **Berlin Centre** organised high-level events on issues such as trade policy, corporate governance, migration and development. The Centre also helped arrange parliamentary hearings with OECD experts on issues such as tax and education policy.

The OECD **Mexico Centre** launched a series of thematic reviews to present the OECD knowledge base to a broad audience. The Centre also broadened the Latin American Program to Access OECD information (LAP). This program has 131 members from Argentina, Chile, Colombia, Costa Rica, Panama and Mexico.

The OECD **Tokyo Centre** held a series of monthly seminars to increase the OECD's visibility in the region. Topics included education, climate change, urban development, economic growth and ageing societies.

The OECD **Washington Centre** provides information for the United States and Canada through promotion of OECD publications and public outreach. A highlight of 2005 was the launch of the *OECD Economic Survey of the United States* in partnership with the Congressional Economic Leadership Institute.

www.oecd.org/centres

OECD online

www.oecd.org
webmaster@oecd.org

The OECD's Web site is the primary point of contact with the Organisation for many people worldwide. Extensive media coverage, as well as improved quality, quantity and relevance of information contributed to generating increased interest in 2005, with more return visits, longer stays and greater online visibility.

Business and Industry Advisory Committee to the OECD (BIAC)

www.biac.org
biac@biac.org

Executive Board:

Chairman: Jin Roy Ryu, Chairman and Chief Executive Officer of Poongsan Corporation (Korea)

Vice-Chairmen: George N. Addy, Partner, Davies Ward Phillips & Vineberg LLP (Canada); Guy de Panafieu, Senior Adviser, Calyon (France); Ludolf von Wartenberg, Director General and Member of the Presidential Board, Federation of German Industries (BDI) (Germany); Bruno Lamborghini, Vice-Chairman, Olivetti S.p.A. (Italy); Keikichi Honda, Chairman of BIAC Japan, Chairman of the Board of Directors, NCR Japan, Ltd. (Japan); Erik Belfrage, Senior Vice-President, Advisor to the Chairman, SEB (Sweden); Charles Heeter, Principal, Deloitte & Touche USA LLP (United States).



BIAC Chairman, Jin Roy Ryu, and BIAC Vice-Chairman, Erik Belfrage, at the annual OECD ministerial meeting in May 2005.

Secretary-General: Thomas R. Vant

Trade Union Advisory Committee to the OECD (TUAC)

www.tuac.org
tuac@tuac.org

Administrative Committee:

President: John Sweeney, President of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO-USA)

Vice-Presidents: Luc Cortebeeck, President of the Belgian Confederation of Christian Trade Unions (CSC-Belgium); Kiyoshi Sasamori, President of Japanese Trade Union Confederation (RENGO-Japan); Tine Aurvig-Huggenberger, Vice-President of the Danish Confederation of Trade Unions (LO-DK-Denmark).



TUAC Chairman, John Sweeney, at the OECD ministerial meeting.

General Secretary: John Evans

The OECD homepage was updated at least 365 times during the year and about 200 staff members edited the site more than 100,000 times. The number of live content items reached 83,000 (50% more than in 2004) and the site received about 14 million visits, up from 10.5 million in 2004.

Some significant achievements in 2005 were the launch of www.oecd.org/infobycountry, featuring OECD work on each of the Organisation's member countries, which now represents 23% of all traffic to www.oecd.org; a site in Chinese (www.oecdchina.org); more public online consultations, information packages and links to press articles to explain OECD processes, research and its relevance to public debates.

In 2006, the site will be given a new look and changes will be made to improve the dissemination of the OECD's work on non-member countries.



www.oecd.org/about
webmaster@oecd.org
www.oecd.org/observer
observer@oecd.org
www.oecd.org/publications/policybriefs
sue.kendall-bilicki@oecd.org

Public information

The Organisation's public magazine, the *OECD Observer*, continued its expansion in 2005, nearly doubling its print-run to 25,000 in response to demand. Highlights included "Spotlight" collections of articles for the global statistics forum in January, the social affairs ministerial meeting in March and the public government ministerial meeting in November, in addition to the annual edition for the OECD ministerial meeting and Forum in May. The *Observer* drew guest bylines by personalities such as Sweden's Prime Minister Göran Persson; US Comptroller General David Walker; academic Jagdish Bhagwati; Total's CEO, Thierry Desmarest; Farm Africa's chief executive, Christie Peacock; and Transparency International's founder, Peter Eigen.

The *OECD Policy Briefs* provide clear, concise summaries of today's global policy challenges and surveys of country economies. In 2005, these included a series on China, and one on trade policy ahead of the World Trade Organization (WTO) ministerial meeting. A new series is underway to explain the OECD's relations with major stakeholder groups.

Openness and transparency are crucial for winning and maintaining public confidence in multilateral co-operation and the policy choices that emerge. In this regard, the *OECD Annual Report* is a key instrument for explaining the nature and work of the OECD. ■



(Left to right)
 OECD Secretary-General,
 Donald J. Johnston, meets the Council
 of Europe Secretary-General, Terry Davis,
 in Strasbourg in October 2005.



International Energy Agency

The International Energy Agency (IEA) is the forum for energy co-operation among 26 OECD countries. The past year was particularly busy as record high oil and gas prices and concerns over their negative impact on the global economy shifted energy policy to the top of political agendas.

The Agency also faced a test of its core mandate – oil crisis management – when devastation caused by hurricanes Katrina and Rita damaged oil production and refining infrastructure in the Gulf of Mexico. The IEA responded with a rapid agreement from its member countries to make 60 million barrels of emergency oil supplies available to the market and stood ready to take further measures to weather the knock-on effects of the storms. This was only the second time in its history that the IEA carried out emergency response measures.

The Governing Board met at ministerial level in May 2005, and strengthened the IEA's mandate of achieving a sustainable energy future through curbing energy import dependence, lessening economic vulnerability to high energy prices including through increased energy efficiency and reducing the environmental impact of the world's growing reliance on fossil fuels.

The leaders of the G8 nations echoed these sentiments at their Gleneagles Summit in July 2005 and asked the IEA to play a major role in helping to deliver the G8 Plan of Action on climate change, clean energy, and sustainable development.

Oil markets and security

The IEA's monthly *Oil Market Report* (OMR) is regarded as a benchmark source of information, data and balances on world oil markets, covering global supply, demand, OECD stocks, refinery activity, oil tanker freight and prices. The monthly report is available to the press and subscribers on release, and to the public on the OMR Web site two weeks later. The Web site also contains more than 3,000 charts and tables of oil market information. Disaggregated data on a product-by-product and country-by-country basis for demand and on a field-by-field basis for supply are available in the Monthly Oil Data Service. In 2005, the IEA also produced its first medium-term supply and demand balances, which will be published on a bi-annual basis in future.

Energy and climate change

The IEA pursued activities on climate policy, from the competitiveness implications of CO₂ emissions trading to the links between energy security and climate policy objectives, and the contribution of energy efficiency policy. The G8, in the Gleneagles Plan of Action, asked the IEA to carry out energy efficiency analysis in the buildings, appliances, industry and surface transport end use sectors.

www.iea.org
info@iea.org



www.oilmarketreport.org
omr@iea.org

Energy diversification

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

Energy technology

During 2005, the IEA published several studies focusing on the contributions that energy technology can make to energy security and mitigating greenhouse gas emissions. Designed to inform policy makers, these books and papers include *Legal Aspects of Storing CO₂*, *Resources to Reserves – Oil & Gas Technologies for the Energy Markets of the Future* and *Prospects for Hydrogen and Fuel Cells*. Two handbooks reported on IEA international energy technology collaboration: *Energy Technologies at the Cutting Edge* and *Mobilising Energy Technology*.

Relations with IEA non-member countries

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

The IEA has continued to participate in the International Energy Forum Secretariat (IEFS) as a non-voting member of the IEFS Executive Board, and plays an important role in producer-consumer dialogue.

Energy statistics

Knowing the importance of a sound energy information system, the IEA has embarked upon a programme of action to ensure the quality, completeness and timeliness of data by developing tools to facilitate the preparation and delivery of reliable statistics, thus raising the profile of energy statistics in countries. Strengthening the expertise and experience of energy statisticians, and rebuilding corporate memory are key priorities.

As regards political support for energy statistics, the Joint Oil Data Initiative (JODI), an initiative of six international organisations, including the IEA, has helped draw the attention of ministers and market participants to the importance of reliable, timely and complete statistics to monitor the oil market. King Abdullah of Saudi Arabia launched the JODI database in November 2005 in Riyadh.

On the technical side, 25 international organisations dealing with energy matters met at the IEA in November to assess the statistics situation in their member countries and within the IEA. They listed a number of areas for action – including resources, commitment, harmonization and co-operation – to work together to improve the quality of energy statistics at a time when more and more data are needed. ■



The 2005 edition of the IEA *World Energy Outlook* focuses on the Middle East and North Africa's crucial role in meeting the world's future energy needs. A special scenario analyses the consequences of deferred investment in this area.

stats@iea.org

Nuclear Energy Agency

The Nuclear Energy Agency (NEA) is a specialised agency within the OECD that helps its member countries to maintain and further develop, through international co-operation, the scientific, technological and legal bases required for a safe, environmentally friendly and economical use of nuclear energy for peaceful purposes.

Its 28 member countries in Europe, North America and the Asia-Pacific region account for approximately 85% of the world's installed capacity for producing nuclear energy.

The NEA's studies and co-operative activities address nuclear safety and regulation; radioactive waste management; radiological protection and public health; nuclear science; economics, resources and technology; and legal affairs.

Ensuring the safety of nuclear energy

Regulatory authorities play an important role in helping to ensure the safety of nuclear installations and the NEA has a long track record in this area. In 2005, the NEA Committee on the Safety of Nuclear Installations (CSNI) and the Committee on Nuclear Regulatory Activities (CNRA) celebrated 40 years of work on nuclear safety.

In June 2005, the NEA organised a Safety and Regulation Forum on Multilateral Co-operation in Nuclear Safety Research and Regulation. More than 100 people took part, including senior regulators and research managers from NEA member countries.

Recent NEA work on radiological protection has focused on shaping the next international system of protection, notably by providing input to the International Commission on Radiological Protection (ICRP).

The NEA is also developing a collective opinion on emerging social and scientific issues that could affect radiological protection policy, regulation and practice over the coming 10 to 15 years.

One challenge arises from scientific indications that the standard model currently used to predict health detriment from exposure to radiation may need to be revised in specific cases.

This would mean re-assessing how risks are evaluated and managed, notably at nuclear power plants.

As part of the continuing follow-up to the accident at Chernobyl on 26 April 1986, the NEA is preparing a study that highlights the main lessons learnt regarding stakeholder concerns and the rehabilitation of significantly contaminated areas.

These lessons could also be of use in a much broader range of circumstances.

www.nea.fr
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DID YOU KNOW...
that nuclear energy supplies nearly a quarter of the electricity used in OECD countries?

DID YOU KNOW...
that the cost of the uranium used to fuel nuclear power plants represents only about 5% of nuclear electricity generation costs?

Radioactive waste management and decommissioning

The NEA conducts international peer reviews of national waste management programmes. In 2005, an NEA review of the “Dossier 2005 Argile” on the feasibility of disposing of high-level, long-lived waste in a deep geological clay formation in France, contributed to the technical support for the French debate on future options for waste management.

The NEA Forum on Stakeholder Confidence, which facilitates the sharing of experience in addressing the societal dimension of radioactive waste management, held its fifth workshop in Spain.

Decommissioning is becoming an increasingly important issue for many member countries as numerous nuclear power plants approach the end of their operational life. In 2005, the NEA published a report entitled *Achieving the Goals of the Decommissioning Safety Case*.

Nuclear energy and economics

A joint NEA and International Energy Agency (IEA) study on projected costs of generating electricity was published in 2005, the sixth in the series. A joint NEA/IEA workshop in May addressed security of supply in liberalised energy markets, a topic also discussed at the NEA Steering Committee policy debate in October. Many delegates stressed the importance of diversity of supply. Countries using nuclear power maintained that nuclear energy has a role to play in contributing to security of supply. They also consider that governments have a role to play in ensuring this security, as a complement to market forces.

Technological development and the future of nuclear energy

OECD ministers have formally recognised that innovation is key in limiting greenhouse gas emissions and securing an affordable and environmentally sustainable energy supply.

Within that context, the NEA is providing technical secretariat services for the Generation IV International Forum (GIF), which is exploring new nuclear energy systems and the research and development needed for their deployment by 2030. The formal Framework Agreement for International Collaboration on Research and Development of Generation IV Nuclear Energy Systems, for which the OECD Secretary-General is the Depositary, was signed in Washington DC in February 2005.

In March 2005, the International Atomic Energy Agency (IAEA) organised a ministerial conference on “Nuclear Power for the 21st Century”, in co-operation with the OECD and the NEA, and hosted by the French Government. Ministers and government officials examined the future role of nuclear energy in meeting the world’s energy needs. A follow-up conference is being considered for 2008-2009. ■



This study presents and analyses cost estimates for some 130 power and co-generation (heat and power) plants using coal, gas, nuclear and renewable energy sources. Experts from 19 member countries, 2 international organisations and 3 non-OECD countries contributed.

European Conference of Ministers of Transport

Joint OECD/ECMT Transport Research Centre

www.cemt.org
www.oecd.org/transport
ecmt.contact@oecd.org



The European Conference of Ministers of Transport (ECMT) is an intergovernmental organisation that enables ministers responsible for inland transport to co-operate on policy development. The ECMT comprises 43 member countries, as well as 7 associate members and 1 observer country. The ECMT is administratively part of the OECD and contributes to many of the Organisation's activities.

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

Ministerial forum

www.cemt.org
ecmt.contact@oecd.org

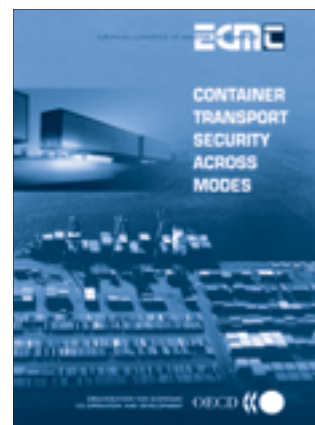
At the ECMT's annual ministerial meeting in Moscow in May 2005, transport ministers agreed to make the ECMT an international ministerial forum with a more global dimension covering all modes of transport. As part of this process, the ECMT ministers invited non-European associate member countries to join with member countries in exploring ways of strengthening co-operation between them.

Improving Europe-Asia transport links

The ministers also approved a series of measures aimed at promoting an integrated approach to providing efficient transport links between Europe and Asia, including measures to improve land access to sea ports, to provide adequate transport infrastructure and to remove institutional and regulatory barriers to efficient transport services.

Road transport

Ministers set guidelines for implementing reform of the ECMT's multilateral quota of haulage licences and approved a series of recommendations on phasing out discriminatory taxes and charges levied on international road haulage. They also took note of a report on international road freight transport, which deals with market access conditions and the future of the multilateral quota.



Maritime shipping containers can be a vulnerable target for terrorist attacks, threatening security in shipping and the other modes of transportation which carry them. This report describes the complex container transport system, identifies potential areas of weakness and gives recommendations for improving security.

Rail transport

Finally, ministers adopted recommendations on railway reform, including guidance for the fair and efficient pricing of transport infrastructure. The recommendations are intended to promote rail freight by simplifying charges applied along international freight corridors and to encourage an end to cross-subsidies from freight to passenger trains.

Transport ministers will meet again in Dublin in May 2006, when the agenda will include monitoring sustainable transport policy and questions of road safety, with the focus on implementing the objective adopted by ECMT ministers in 2002 of halving the number of people killed on the roads by 2012. Ministers will also discuss the development of the ECMT following the 2005 agreement to give it a more global dimension, and will carry out an evaluation of the Joint OECD/ECMT Transport Research Centre.

Transport research

The Joint OECD/ECMT Research Centre promotes economic development and contributes to structural improvements of OECD and ECMT economies through co-operative transport research programmes.

Work in 2005 included research into road safety performance in member countries, particularly among young drivers, as part of efforts to reach the road death reduction target for 2012.

Other current topics include congestion, transport financing and globalisation.

All OECD and ECMT countries are full members of the Joint OECD/ECMT Centre, which was formed in 2004 through the merger of the OECD's road transport and intermodal linkages research programme and the ECMT's economic research activities.

Statistics

The ECMT produces annual statistics on trends in the transport sector, as well as annual road accident statistics. It maintains a database on short-term trends in the inland transport sector, which is updated quarterly. During 2005, the ECMT began to reform its data collection for investment in transport infrastructure, and will in future publish figures annually, instead of every five years.

The ECMT also prepared, in conjunction with the EU Statistical Office Eurostat and the UN Economic Commission for Europe (UNECE), a Web version of the common questionnaire used for compiling transport statistics and began collecting data for the year 2004. Definitions of the statistical terms used are regularly updated and printed in the "Glossary for Transport Statistics", available online. ■

www.cemt.org/jtrc
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www.cemt.org/stat/conjonct
www.cemt.org/online/glossaries

DID YOU KNOW...
 that in 17 Western European countries, the number of road traffic fatalities declined in 2004 by 7.6%, the best percentage drop for the last 20 years?

The international fight against money laundering and terrorist financing

The Financial Action Task Force (FATF) is an international body that develops and promotes policies to protect the global financial system against money laundering and terrorist financing. Recommendations issued by the FATF define criminal justice and regulatory measures that national systems should implement to counter this problem. These Recommendations also include international co-operation and preventive measures to be taken by financial institutions and others such as casinos, real estate dealers, lawyers and accountants.

The FATF Recommendations have become recognised as the global standard for anti-money laundering and counter-terrorist financing measures. In July 2005, the UN Security Council issued a resolution urging all UN Member States to implement all the FATF Recommendations.

The FATF started a third round of mutual evaluations of its members in January 2005 to assess whether they have introduced and effectively implemented the necessary laws, regulations or other measures. The FATF completed evaluations of Australia, Belgium, Norway and Switzerland, and agreed an evaluation of Italy prepared by the International Monetary Fund (IMF).

In January 2005, the FATF granted observer status to China, and it will become a full member once a mutual evaluation of its anti-money laundering and counter-terrorist financing system is completed. The FATF has also started a dialogue with India, with a view to eventual full membership. This process of expanding membership to important jurisdictions is a critical element in building a global network.

Typologies (studies of money laundering and terrorist financing methods and trends) play a key role in ensuring that FATF standards remain relevant. The FATF annual typologies report for 2005 examined the money laundering and terrorist financing aspects of alternative remittance systems, insurance, and human trafficking.

The FATF also encourages and reinforces the work of FATF-style regional bodies (FSRB). In June 2005, it held a joint plenary meeting with the Asia/Pacific Group on Money Laundering, the first to include an FSRB. Topics discussed included obstacles to implementing FATF standards in the region. The FATF also held a joint typologies exercise with GAFISUD, the FSRB for South America, and helped a regional group in Western Africa make considerable progress toward becoming a full-fledged FSRB.

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

www.fatf-gafi.org
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DID YOU KNOW...
 that the UN Security Council has urged all UN Member States to implement the FATF Standards?



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

HOW THE OECD
WORKS



Executive directorate

www.oecd.org

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

In 2006, the Executive Directorate will continue to advance reform projects, including the further development of a results-based programme of work and budget and the renovation of the Organisation's Paris headquarters (see box page 8), the financial management programme and the review of human resource policies.

Programme of work and budget

During the past three years, the Organisation has reformed its budget process and progressively implemented a new results-based management framework. In 2005, it carried out a survey of member countries' views on the direction and priorities of the OECD's policy work over the medium term (2007-2008).

Human resource management

The Human Resource Management Service is responsible for recruitment, support to managers, staffing administration, training, well-being activities and a wide range of high-quality administrative, recruiting and counselling

www.oecd.org/hrm

hrm.eRecruit@oecd.org



(Left to right)

OECD Secretary-General Donald J. Johnstone, with Czech Republic President, Vaclav Klaus, and Czech Foreign Affairs Minister, Cyril Svoboda, at the OECD Council meeting in Prague in December 2005.

services to staff. In 2005, the service successfully implemented e-recruit, further streamlining operational and recruitment procedures. The top priority for human resources management for 2005-2006 is a major review of the Organisation's staff policies, being carried out in widespread consultation with members of the secretariat and a group of ambassadors. Reform proposals will be discussed in 2006.

Financial resources management

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The Organisation's reporting was improved through the introduction of standard costs for permanent staff and the implementation of accounting software for the site project (see box page 8) reporting. Internal control was strengthened through further software modules to account for the delivery of goods purchased as well as for fixed assets. Financial management has been enhanced by ensuring that grant-funded projects contribute to the Organisation's overheads. In addition, an electronic Finance Management Handbook was issued to assist directorates with financial operations. Banking and payment methods were developed to increase efficiency and reduce risk. The OECD performs a continuous assessment of the Organisation's risk and control processes in accordance with best governance principles.

Procurement and contract management

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OECD staff responsible for procurement and contracts management provide centralised services and guidance to ensure a transparent and competitive procurement system which enables the Organisation to obtain consistently high quality goods and services at best value prices. In 2005, the redevelopment of the Organisation's La Muette site has been a priority area of work. This included related activities such as the sale of a building no longer required by the Organisation and the adjustment of several service contracts. Also in 2005, a formal Network of Procurement practitioners in International Organisations (NPIO) was created to reflect and exchange information on procurement issues and to allow its members to compare and optimise their procurement and negotiation practices.

Strengthening security

The Organisation further strengthened security in 2005 in response to heightened concerns about international terrorism. It recruited a manager to co-ordinate security work for travel and meetings abroad and strengthened its country risk analysis. New security principles and guidelines will be applied in 2006. The Organisation also improved security at buildings on the headquarters site by installing new anti-fragmentation windows and automated double-door gates.

Buildings maintenance, infrastructure services

Infrastructure services to staff and conference delegates continued on a reliable basis despite the difficult conditions imposed by the major renovation of the headquarters site. Conference facilities and other support functions were provided from the New Building on the La Muette headquarters site

in Paris during 2005 and were transferred to the newly renovated Château in early 2006, until the Conference Centre is completed in 2007.

The 450 staff working in the New Building moved into the renovated Château and other buildings on and near the La Muette site in early 2006 so that the New Building could be closed down for asbestos removal and renovation.

The centralised digital printing workshop enhanced its colour and online book-binding equipment to permit on-demand printing of higher quality documents and publications.

Information and communications technology services

In 2005, new services were introduced to facilitate the work of national delegates to OECD committees; support the Organisation's policy activities; streamline administrative processes; support management reform; and provide country-specific pages on the OECD Web site. Committee delegates and other national officials increased their use of the secure online access to the OECD's Committee Information Service by 25%. The new Statistical Information System is helping to improve the quality and timeliness of statistical outputs. The infrastructure underpinning these services was improved with new measures taken to protect the Organisation against increasing security threats and cybercrime. The core of the infrastructure itself was successfully relocated at the end of the year to a new and highly secure ICT Centre inside the Château.

The OECD Commission for Computerised Information and Privacy is an independent body which monitors compliance with the principles governing computerised personal data held by the Organisation, whether they concern its staff or any other person. It may submit to the secretary-general proposals for improving the data protection system.

Conference and language services

In 2005, the OECD organised 2,700 days of conferences at headquarters and elsewhere, and translated some 80,000 pages of documents and publications (the bulk of it from and into the OECD's official languages, English and French, and around 3% from and into third languages). During this period, some 2,100 half-day sessions were interpreted into different languages at headquarters and support was given to increasing numbers of prestige events abroad. Also in 2005, video-conferencing systems, integrated with the state-of-the-art audio equipment, were installed in seven conference rooms. Accommodation for nearly all the substantive conferences planned at OECD headquarters in 2006 has been found, despite the significant reduction of available rooms resulting from the site project. ■



Bright prospects for the new conference centre as work continues apace.

Who does what

www.oecd.org/overview

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

The Council has legislative, strategic and governance functions. It is composed of all the members and presided over by the Secretary-General. The Council meets once a year at ministerial level to discuss strategic issues. Each member country has a permanent representative to the OECD and they meet regularly in the Council.

In 2005, some 300 items were considered for decision, covering both policy-related matters from earthquake safety in schools to corporate governance of state-owned enterprises and more general 'housekeeping' or administrative issues. During 2005, the prime ministers of Romania and Thailand addressed members of the Council and 16 non-members were invited to participate in the annual meeting at ministerial level. Numerous dialogues also took place with the chairs of the major committees.

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

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



(Left to right)
OECD Deputy Secretary-General, Berglind Ásgeirsdóttir; IEA Executive Director, Claude Mandil; and Chair of the IEA Ministerial meeting and Australian Minister for Industry, Tourism and Resources, Ian MacFarlane, during the OECD annual ministerial meeting in May 2005.

Employment, Labour and Social Affairs Committee; Education Committee; Committee for Agriculture; Fisheries Committee; Committee on Statistics.

The International Energy Agency (see box page 92) and the OECD Nuclear Energy Agency (see box page 94) deal with energy issues. Work mandated by the Council is carried out by the OECD secretariat's various directorates.

Development Co-operation Directorate (DCD)

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

Economics Department (ECO)

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

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

The department's twice-yearly *OECD Economic Outlook* analyses macro-economic developments and near-term prospects, highlighting key policy issues, and includes chapters on related macroeconomic topics. The annual publication *Going for Growth* presents the results of the ongoing horizontal structural surveillance process. About 20 *OECD Country Surveys* of member and non-member economies are published annually, covering the key macroeconomic and structural challenges.

Directorate for Education (EDU)

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

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

Directorate for Employment, Labour and Social Affairs (ELS)

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

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



(Left to right)
 Austrian Federal Minister of Economic Affairs and Labour, Martin Bartenstein; Hong Kong (China) Secretary for Commerce, Industry and Technology, John Tsang; and Mexican Secretary of the Economy, Fernando Canales, during the OECD annual ministerial meeting in May 2005.

Centre for Entrepreneurship, SMEs and Local Development (CFE)

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The Centre for Entrepreneurship, SMEs and Local Development was created in July 2004, grouping the Local Economic and Employment Development (LEED) Programme and the Small and Medium-sized Enterprise and Entrepreneurship (SME) Division. In February 2005, the OECD Tourism Programme joined the Centre in order to benefit from important existing synergies between tourism, SMEs and local development. The mission of the Centre for Entrepreneurship is to foster the development of an entrepreneurial society, capable of innovating, creating jobs and seizing the opportunities provided by globalisation while helping to promote sustainable growth, integrated development and social cohesion.

Environment Directorate (ENV)

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

Executive Directorate (EXD)

www.oecd.org

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

Directorate for Financial and Enterprise Affairs (DAF)

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The Directorate for Financial and Enterprise Affairs (DAF) seeks to improve the quality of governance for business and markets, supporting government policies and international co-operation to ensure market efficiency and combat abuse. DAF takes up public policy challenges of direct concern to

business – including investment, finance, corporate governance, competition and anti-corruption – to enhance economic growth and development, ensure financial stability and promote the effective integration of non OECD countries in the global economy. DAF staff work closely with senior government officials from OECD member and non-member countries to develop recommendations, best practices, international standards and sometimes legally binding agreements based on cross-country analysis, roundtable discussion and peer review. These efforts are enriched by regular contacts and consultations with the private sector, labour and other civil society representatives.

DAF's work is carried out through six established OECD bodies – the Investment Committee, the Competition Committee, the Financial Markets Committee, the Insurance and Private Pensions Committee, the Steering Group on Corporate Governance and the Working Group on Bribery in International Business Transactions. Non-OECD countries participate actively in this work and several have undertaken the same commitments as OECD members in tackling corruption, ensuring non-discriminatory treatment for foreign investors and recommending high-standard behaviour to their multinational enterprises.

Directorate for Food, Agriculture and Fisheries (AGR)

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

Public Affairs and Communications Directorate (PAC)

www.oecd.org

The Public Affairs and Communications Directorate (PAC) makes information about the OECD's work available to the public in a timely manner,

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

Public Governance and Territorial Development Directorate (GOV)

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

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

Directorate for Science, Technology and Industry (STI)

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The overall mission of the Directorate for Science, Technology and Industry (STI) is to help OECD member countries understand and, where necessary, shape the evolution of a knowledge-based economy, in order to achieve the highest innovation potential and adapt national policies to opportunities provided by technological change and globalisation. The directorate provides indicators, analysis and recommendations to help formulate government

policies on science, technology, industry and innovation issues. The Committee on Industry and Business Environment examines framework conditions for competitiveness in industry and services, productivity growth and the implications of global value chains. The Committee for Scientific and Technological Policy examines policies to stimulate science and innovation, improve the contribution of intellectual property rights to economic growth and enhance the effectiveness of R&D and industry-science linkages. Its Working Party on Biotechnology focuses on policy analysis and development, as well as metrics aimed at maximising the contribution that biotechnology can make to sustainable growth in member and non-member countries. The Committee for Information, Computer and Communications Policy helps understand emerging trends in information and communications technology development, applications and use, and helps formulate public policy towards a better information society. The Committee on Consumer Policy focuses on enhancing consumer protection and user trust in the online environment. The Directorate also assists multilateral negotiations for binding agreements to limit public support to shipbuilding and steel industries.

Statistics Directorate (STD)

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

Centre for Tax Policy and Administration (CTPA)

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The Centre for Tax Policy and Administration (CTPA) is the focal point for the OECD's work on taxation. The CTPA provides technical expertise to the Committee on Fiscal Affairs, which covers all taxes (other than customs duties), tax policy and tax administration. The CTPA's statistical outputs (*Revenue Statistics*, *Taxing Wages* and the OECD Tax Statistics online database) provide annual comparisons of the levels and structures of tax revenues.

The CTPA also fosters dialogue with non-OECD economies, thereby promoting international co-operation in taxation. The partnership programme, which includes more than 80 countries, is integral to the CTPA's core work, particularly in the areas of negotiating, applying and interpreting tax treaties, transfer pricing and effective exchange of information between tax administrations.

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

Trade Directorate (ECH)

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

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Development Centre (DEV)

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

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The Sahel and West Africa Club (SWAC)

The Sahel and West Africa Club is an informal forum for analysis, informed debate and action supporting the efforts of West Africans in defining medium- and long-term development strategies for the region and advocating and promoting their implementation. It encourages and facilitates analysis, exchange of views and decisions, both South-South and North-South, in four main areas: medium- and long-term development perspectives of the region, agricultural transformation and sustainable development, local

www.oecd.org/sahel
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development and the process of regional integration, governance, conflict dynamics, peace and security. The work programmes to be carried out in each of these areas are consistent with the concerns for the future of the region notably in the New Partnership for Africa's Development (NEPAD), in the Vision of the Africa Union and in the partnership framework recently agreed between the Club's secretariat and ECOWAS' secretariat.

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

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

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The OECD has 30 member countries, but many more countries and economies outside its membership are involved in a wide range of the Organisation's work. The Centre for Co-operation with Non-Members (CCNM) develops and oversees the strategic orientations of the OECD's global relations with non-members. The CCNM services the Committee on Co-operation with Non-Members (CCN) and works with the Organisation's members to help them agree on the substantive priorities and to ensure that relevant regions and countries or economies are engaged in the Organisation's work. Furthermore, it advises the secretary-general and his deputies and provides guidance to the secretariat to ensure that the OECD's relations with non-members develop in a co-ordinated manner and in line with the agreed strategic objectives. The Centre acts as a point of contact for non-members, guiding them in their relations with the Organisation, while maintaining an overall view of non-members' relations with the OECD. It co-ordinates both the non-members' participation in OECD bodies and the process of accession of new members. The CCNM is also a point of contact with other international organisations and promotes and co ordinates relations with them.

The International Futures Programme

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The role of the International Futures Programme (IFP), which reports directly to the OECD secretary-general, is to identify newly emerging economic and social issues that may have an important bearing on member countries' policy making in the years ahead. Its purpose is to promote strategic thinking, test new ideas for the Organisation, develop cross-disciplinary approaches, and stimulate dialogue among government, business and research on matters of long-term interest. Much of its work is made available in the form of OECD reports and publications. Current activities include advice to member countries on managing major risks – natural and man-made – in an increasingly interdependent and uncertain world environment; work on the financing of future global infrastructure needs; the economic analysis of space-based applications such as earth observation and global positioning and navigation; the future of international migration; and the wider implications of the emergence of the bio-based economy. ■

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Ministerial Chair's summary

Enabling globalisation

www.oecd.org/mcm2005

Sweden had the great privilege of chairing the OECD Ministerial Council Meeting 2005. The unifying theme was “Enabling globalisation” – one of the most important challenges of our time. Globalisation is both inevitable and desirable. Our task is to make it inclusive and sustainable, seizing the opportunities of open markets, while addressing the needs of those who risk being left behind. Our deliberations showed willingness to shoulder shared responsibility to enable a globalisation that benefits all.

Ministers stressed the need to use all relevant policy instruments in a coherent manner, to foster growth and sustainable development, facilitate investment in energy, push ahead with structural reforms, reduce poverty and ensure a successful outcome of the Doha Development Agenda – all important items for the coming summits of the G8, the UN and the WTO. We look to the OECD to strengthen further its role in meeting these challenges.

Our discussions with non-OECD economies were enriching. We also benefited from dialogue with the Business and Industry Advisory Committee and the Trade Union Advisory Committee to the OECD, and broader civil society at the OECD Forum.



(Left to right)
US Secretary of Energy,
Samuel W. Bodman; Swedish
Prime Minister, Göran Persson;
and IEA Executive Director,
Claude Mandil, at the OECD annual
ministerial meeting in May 2005.

The economic outlook

Ministers noted that growth was strong overall last year, despite rapidly rising oil prices. Low interest rates helped. So did globalisation, with trade growing vigorously, especially in Asia, and heightened competition helping to contain inflationary pressures. The expansion has somewhat weakened recently as higher energy prices and exchange rate shifts worked their way through. Economic growth should regain momentum later this year, however, and become more balanced across countries.

Some tensions and risks persist. A prominent one pertains to oil prices. Enduring external and internal imbalances also overshadow the outlook, in the form of widening current account gaps, large fiscal deficits and possibly stretched valuations in some asset markets. While the imbalances may well unwind smoothly, including via some exchange rate adjustments, some turbulence cannot be ruled out. Persevering with structural reform, however, will help absorb any such disruption.

Ministers reiterated the fundamental importance of achieving and maintaining sustainable public finances and recognised that this posed a challenge for most OECD countries, given current budget positions and mounting pressures from ageing populations.

Regarding the *OECD Economic Surveys*, APEC ministers again called for equal treatment across countries and expressed their disappointment that the surveys still do not address the full range of EU policies.

Investing in energy

Ministers noted the International Energy Agency's estimate that USD 16 trillion in investment will be needed in the energy sector by 2030. In a business-as-usual scenario, the world energy demand and global carbon dioxide emissions will grow by 60% until 2030. It is necessary to do more to reduce the impact of increased energy demand on the environment and the climate.

Ministers stressed the need to tackle high and unstable energy prices. This requires action by both producers and consumers to affect demand and supply. Deepening dialogue with the oil-producing countries and increased transparency are crucial for market stability.

Ministers underlined that sufficient supply of clean and affordable energy is crucial for economic and social development. Investment in energy technology and infrastructure must be directed towards sustainable, efficient technology with less negative climate impact. To this end, we should promote:

- market-based policies and measures;
- transparent, stable and globally consistent mechanisms and frameworks for investment, transfer and dissemination of technology;
- research and development for a sustainable energy system; and
- collaboration between government and industry.



(Left to right)
OECD Deputy Secretary-General,
Kiyotaka Akasaka, and Japanese
Minister for Foreign Affairs,
Nobutaka Machimura, at the OECD annual
ministerial meeting in May 2005.

Enhanced energy and resource efficiency will stimulate growth, not impede it. Ministers stressed the need for further liberalisation of energy markets in order to improve competitiveness, efficiency and consumer choice. We should work in both OECD and non-OECD countries to eliminate harmful energy subsidies that needlessly distort the market.

Ministers recognised that developing countries must have equal access to the world's energy resources through the market. We will also work together to bring modern energy services to the 1.6 billion people in the developing countries who lack them.

In the long run, innovation is key in limiting greenhouse gas emissions and securing an affordable and environmentally-sustainable energy supply. Ministers will do their utmost to provide the right framework for developing and deploying new technologies.

Globalisation and structural adjustment

Ministers welcomed the OECD studies "Growth in Services" and *Trade and Structural Adjustment* and their policy messages. We agreed that globalisation is a positive force, while recognising that policies must be put in place to ensure that it benefits all. Globalisation in the long term is a truly "positive sum game", provided that adjustment challenges for individuals, regions and countries are handled wisely.

We noted that a macroeconomic framework promoting stability and growth, social safety nets, an efficient regulatory framework, open trade and investment policies, human resource development, active labour market policies, lifelong learning and innovation policies are crucial elements of structural adjustment. Some emphasised the need to formulate economically, socially and environmentally-sustainable policies, as well as the need to change unsustainable production and consumption patterns.

The service sector has large untapped potential to increase employment, productivity and innovation. Reforming the service sector is essential to improve the foundations for future performance of OECD economies.

Ministers stressed the need to deepen the understanding of the impacts of globalisation in the OECD and non-OECD economies. We also need to study and share experience on best practices, on policy responses and on how to meet adjustment challenges. We welcomed the proposed follow-up study on globalisation and structural adjustment and urged the Council to proceed with its implementation.

Challenges of the Millennium Declaration and Monterrey Consensus

Ministers welcomed the OECD Statement on the follow-up to the UN Millennium Declaration and Monterrey Consensus, which will be transmitted to the United Nations for the Millennium Review Summit in September.



The Statement notably commits OECD countries to intensify efforts to meet the Millennium Development Goals on reducing poverty and hunger, achieving education for all and tackling AIDS and other diseases. It reaffirms commitments to increase aid and use it more effectively. Ministers stressed the importance of stable and predictable financial flows, the need for policy coherence, the importance of dialogue and a well-functioning multilateral system, and for the OECD to strengthen its partnership with developing countries and other international organisations.

A proposal by Japan to strengthen co-operation with African countries to raise private investment, both domestic and foreign, in their overall efforts to achieve the Millennium Development Goals received support. Such co-operation would be built on the existing OECD Initiative on Investment for Development.

Trade negotiations under the Doha Development Agenda

Ministers called for a heightened sense of urgency to achieve an ambitious result from the Doha Development Agenda by the end of 2006, recognising that a successful conclusion of the negotiations would be a powerful engine for global growth, employment, development and poverty reduction. Time is short and there is much to do. There is a need to empower senior negotiators to bring the negotiations back on course. We commit to expedite the preparations for a successful WTO Ministerial Conference in Hong Kong in December. Results-oriented work is needed to produce a good basis in July for the ministerial meeting. There is no viable substitute for an effective multilateral trading system.

Ministers stressed the need for concrete and complementary progress over a range of key issues: agriculture, so-called Non-Agricultural Market Access (mainly industrial products), services, trade facilitation and rules. The interest of developing countries had to be secured across the board. There is a particularly urgent need to advance negotiations on all agricultural issues, where tariff conversion problems need to be solved. We hope that progress being made here in Paris will reach fruition. We welcomed signs of convergence on a tariff reduction formula for NAMA, which would ensure substantial market openings while taking into account the capacity of individual WTO members. On services, we stressed the importance of meeting the May deadline to ensure a critical mass of commercially meaningful and improved offers, to supplement this process and devise appropriate benchmarks. We must now move beyond the *status quo*.

Ministers confirmed the need to strive for an ambitious outcome to revive the commitment to development. Developing countries' interests and concerns must be properly reflected in the result from the Doha Development Agenda. Most tangible gains will come from improved market access, including through south-south trade. Enhanced technical assistance and capacity building, including to improve supply-side capacities and institution building, are crucial for developing countries to reap the gains from trade. Here OECD member countries have a key role.

Ministers recognised that sound domestic policies are necessary to reap the full benefits of trade liberalisation. Governments therefore had to take appropriate domestic steps and ensure that structural adjustment was conducted in a socially responsible way. The OECD *Trade and Structural Adjustment* study provided valuable analysis in this respect. Continued OECD trade policy dialogue with non-OECD economies was encouraged.

OECD reforms

Ministers discussed the role of the OECD today and in the future. We stressed the need to maintain the renowned quality of OECD work throughout the reform process. We also agreed that momentum must be maintained in order to strengthen the relevance of the OECD as a leader in policy analysis and peer reviews, and as a pathfinder in establishing global norms and standards.

Ministers expressed strong support for the steps taken towards a more strategic co-operation with non-OECD economies, such as the new outreach programme with the Middle East and North Africa region. Ministers welcome the progress made on guiding principles for launching a Differentiated Engagement Strategy with key economic actors.

Another crucial step was the agreement to address how to improve governance, in particular to take account of the implications of future enlargement. Here ministers encouraged the Council to establish a mechanism by the end of July 2005. Enlargement should not jeopardise the sound functioning of the OECD, but rather be an opportunity to strengthen the Organisation.

Ministers expressed their wish to see progress in the reform process in the next year to be reported by the Secretary-General at the Ministerial Council Meeting in 2006. ■



(Left to right)
IMF Managing Director,
Rodrigo de Rato y Figaredo and Spanish
Vice-President of the Government
and Minister for Economy and Finance,
Pedro Solbes, at the OECD annual
ministerial meeting in May 2005.

PRACTICAL
INFORMATION



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March 2006

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SECRETARY-GENERAL: Donald J. Johnston
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March 2006

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